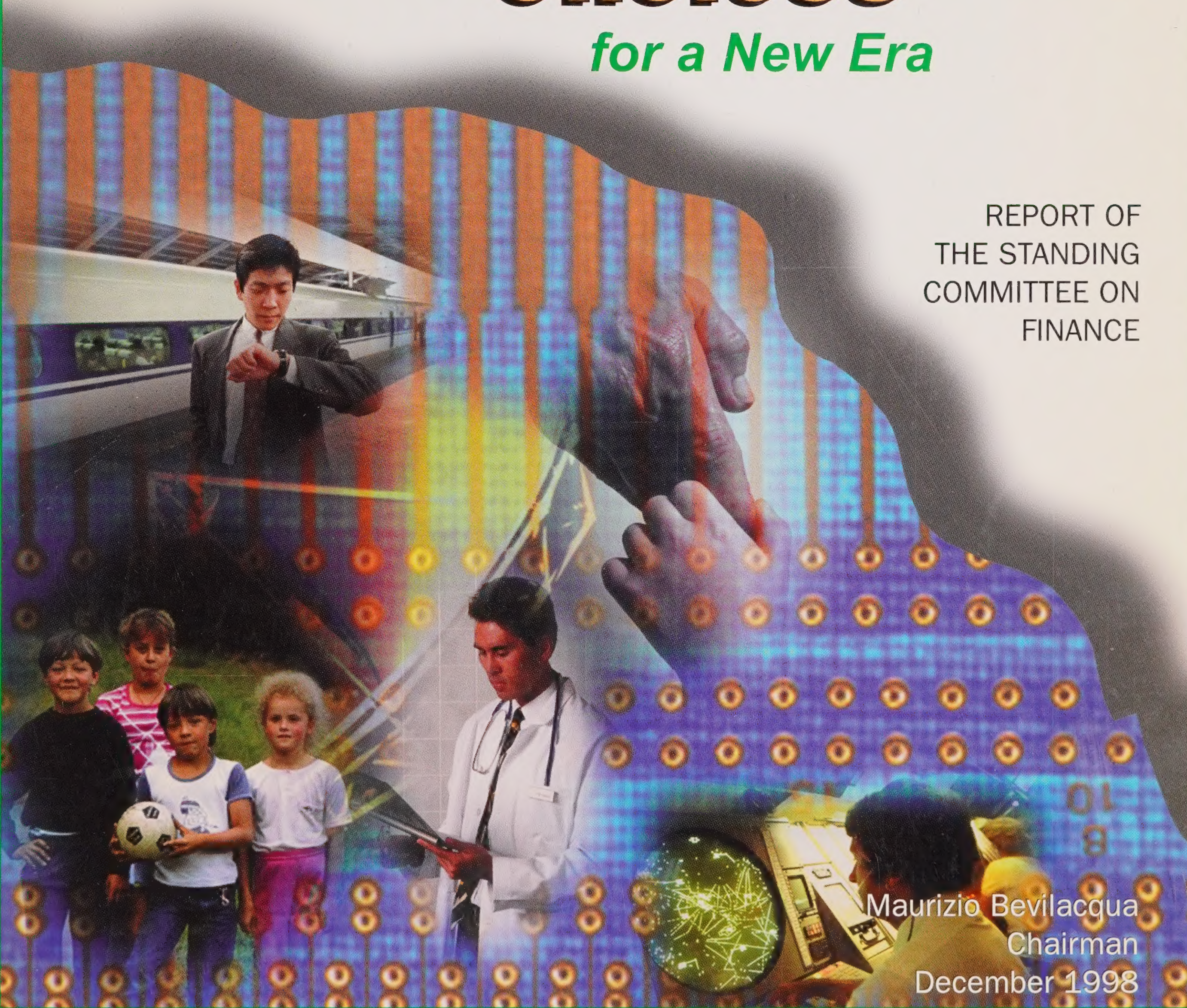
HOUSE OF COMMONS
CANADA

Facing the Future
Challenges & Choices
for a New Era



REPORT OF
THE STANDING
COMMITTEE ON
FINANCE

Maurizio Bevilacqua
Chairman
December 1998

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FACING THE FUTURE:

Challenges and Choices for a New Era

Report of the Standing Committee on Finance

December 1998

Publications Service

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Shaughessy Cohen, M.P.	(Windsor—St.Clair, ON)
Roy Cullen, M.P.	(Etobicoke North, ON)
Paul Forseth, M.P.	(New Westminster—Coquitlam—Burnaby, BC)
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Yves Rocheleau, M.P.	(Trois-Rivières, QC)

CLERKS OF THE COMMITTEE

Jacques Lahaie

Roxanne Enman

STAFF OF THE COMMITTEE

(Parliamentary Research Branch)

Richard Domingue
Marion Wrobel

(TGC Inc.)

Joseph Mayer, Consultant

COMMITTEE MANDATE

Standing Orders 108(2) and 83.1

Each year the Standing Committee on Finance shall be authorized to consider and make reports upon proposals regarding the budgetary policy of the government. Any report or reports thereon may be made no later than the tenth sitting day before the last normal sitting day in December, as set forth in Standing Order 28(2).

THE STANDING COMMITTEE ON FINANCE

has the honour to present its

ELEVENTH REPORT

In accordance with its mandate under Standing Orders 108(2) and 83.1, your Committee has studied proposals on the budgetary policy of the Government and has agreed to report the following:

TABLE OF CONTENTS

CHAIRMAN'S FOREWORD

Canada stands on the threshold of a new century. In just over a year, our country will enter a new era — the 21st century, the new millennium.

Canadians look toward that new era with confidence. Over the past two months, the House of Commons Finance Committee has listened to Canadians as they expressed their hopes for the future. This report, "Facing the Future," is a reflection of our Committee's dialogue with the people of Canada.

No one can predict what the future holds, but one thing is certain: the decisions we make in the next few years will have tremendous consequences for decades to come. Through our decisions, and our actions, we can shape the future.

Fortunately, we arrive at this critical juncture in a position of strength. After more than a generation of federal budget deficits, the books have finally been balanced. Last year, for the first time in 28 years, Canada actually paid down its national debt.

Of course, several crucial steps were taken to reach this objective. First, the government restored sound management of the nation's finances, putting them on track to reach a balanced budget. It also set about reducing the debt-to-GDP ratio, both by getting the debt down, and, by improving the productivity of our economy, getting the GDP up. And finally, the scope of government itself was revolutionized. The government has adopted a new philosophy — one embodied in the principles of "Program Review" — a philosophy which states that government must focus its efforts in those areas where it can do the most good for the people of Canada.

At all times, as it pursued its fight against the deficit, the government has kept in mind that eliminating the deficit was not an end in itself, but rather was a means to a far greater end: that of improving the quality of life of Canadians. That is why the government has continued to make strategic investments to

support social and economic priorities. That is also why it has moved quickly to begin providing tax relief to hardworking Canadian taxpayers.

The results of this balanced approach are plain to see. The government has eliminated a $42 billion deficit, while maintaining our world-renowned system of social programs.

This historic achievement belongs to all Canadians. It is thanks to the efforts made by every citizen from coast to coast to coast that, together, we were able to reach this impressive goal.

And yet, we must be ever mindful of one thing: while a balanced budget is an important milestone, it is not a final destination.

Eliminating the deficit has restored our freedom of action. While caution remains important, we are nonetheless faced with new choices, and the decisions we make today will help shape our collective future. Asking Canadians for their views on the choices that lie before us was one of the primary goals of this year's pre-budget consultation.

Our Committee held hearings in every province across the country. We met with Canadian men and women, business people, social activists, seniors and university students. We learned about their concerns, as well as their hope for the future. The people who appeared before the Committee or who sent us written submissions provided us with a very clear idea of the priorities they expect to see in the next federal budget.

A large number of them want to see resources dedicated to reducing the federal debt. Canadians understand that the national debt consumes too high a percentage of our public finances, and want it under control.

The Finance Committee also heard many voices speak out strongly for continued tax relief. After sacrificing to eliminate the deficit, taxpayers expect to reap the rewards of their efforts.

And, just as importantly, Canadians want their government to begin reinvesting in social programs, especially the health care system. The people the Committee spoke with recognized that the

spending levels of the past were unsustainable. But they also insisted on the importance of ensuring that our health care system has the resources to meet current demands, as well as those of an aging and growing population.

Canadians also continue to support the other components of a strong social safety net. They have told the government many times that their priorities include ensuring greater access to knowledge for all Canadians, providing support for children, low-income families, and helping other vulnerable groups, such as youth at risk and aboriginal Canadians.

However, while Canadians are ready to use the budget surplus to fund these priorities, they have one pre-condition: the government must never abandon its balanced approach. People want a balanced budget as the solid foundation upon which they can build a prosperous future.

Of course, future prosperity will require improved productivity. We live in a world that is changing very rapidly. Technological innovation is giving rise to new industries, and is leading to new applications in older industries, requiring a highly skilled labour force.

Worldwide trade liberalization has led to a new global marketplace, where financial capital and manufacturing processes can be moved to offshore locations to take advantage of the most favourable business environments. Nations are discovering that their populations are also highly mobile.

Unless we take active measures to improve our productivity, Canada will slip behind citizens of other industrialized countries.

Of course, government has an important role to play in fostering greater productivity. The "**Productivity Covenant**" is a proposal for effective government action to foster greater productivity.

The Productivity Covenant outlines a set of key principles that should guide government action. These include: embrace change; keep government regulation flexible; adapt to the high degree of mobility in the new global economy; and recognize that there is a

legitimate role for government, in producing an educated workforce, investing in human capital, and in the creation of scientific knowledge.

Based on these principles and others, the Productivity Covenant also presents a series of goals to be pursued by governments. These include: establishing a healthy fiscal, monetary and social climate; getting government right; taking advantage of the market's strengths; and Investing in the infrastructure of a productive economy.

Greater productivity requires targeted investments to support research and development, as well as post-secondary education. As we heard during this consultation, Canadians want public finances to be managed in a responsible manner, but they still expect the government to take concrete steps to improve the Canadian standard of living.

Canadians recognize that government can be a force for good in our society. While no one supports the bureaucratic excess we saw in past decades, people appearing before our Committee expect the government to fulfill its responsibilities in the areas of fiscal management and social policy. The citizens of this country recognize that our national government has helped to make Canada prosperous, and they expect to play a role in helping them build the future.

On behalf of the Committee, I would like to thank the many individuals and organizations who took part in this year's pre-budget consultation. Canadians raised many different viewpoints at our roundtable meetings, at the townhall meetings organized in various ridings and in written submissions sent to the Committee. Our work would not be possible without your contribution.

On a more personal note, I would like to express my gratitude to my fellow Committee members for the many hours they have invested in this consultative process. While some of us may differ on various points of public policy, I know that we share a commitment to giving Canadians a voice in the decision-making

process. Once again, thanks to the efforts of every Committee member, we have succeeded in making this public consultation a forum for the free exchange of ideas between Canadians.

Of course, the success of such an important endeavour as the pre-budget consultation requires the support of many other people who work behind the scenes. The Committee would like to thank our clerks, Jacques Lahaie and Roxanne Enman, for their contributions. We also thank Denise Croteau and Lise Tierney from the Committees Branch, as well as the interpreters, sound technicians and other members of the House of Commons staff.

The members of the Committee and I also wish to thank the members of the Research Branch, Marion Wrobel and Richard Domingue, without whom this report would not have been possible. We thank Robert Kermode and Joseph Mayer for their editorial services. And we are grateful to the production team, Julie Cusson, the translators and everyone else who worked to ensure the quality of our report.

Finally, I wish to thank my Special Assistant, Jennifer Demers, for her tireless efforts over the past few months.

CHAPTER 1: A NEW ERA EMERGES

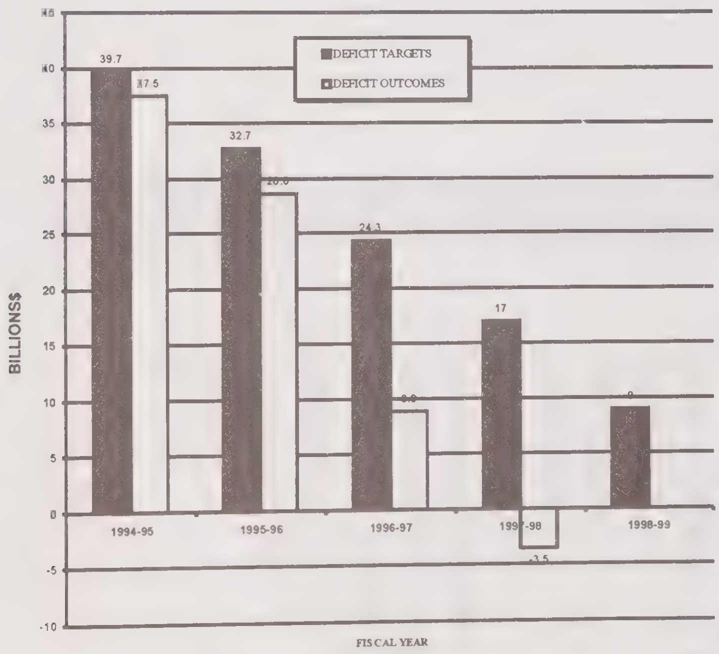
In 1997-98, the federal government, for the first time since 1969-70, ended a fiscal year without recording a budgetary deficit. It predicted a zero deficit, after taking into account a $3 billion contingency reserve. With the books now closed, the final tally was a surplus of $3.5 billion.

As in the past, the federal government has once again bettered its original target by a substantial margin. The deficit target for the fiscal year 1997-98 was originally set at 2% of GDP, approximately $17 billion. In sheer dollar terms, this result is even more dramatic than that achieved in the previous year, when the deficit was $8.9 billion instead of the $24.3 billion targeted.

> *I am pleased to announce that, for the first time in more than a generation, the Government of Canada has recorded a surplus — $3.5 billion. That money has been applied directly to the debt. This marks the first time in 28 years that Canada has actually paid down the debt.*
>
> **Paul Martin, The Economic and Fiscal Update, October 14, 1998.**

> *The improvement in the federal budgetary balance is the most dramatic turnaround in federal government finances since the Second World War demobilization*
>
> **The Economic and Fiscal Update, October 14, 1998.**

DEFICIT TARGETS AND OUTCOMES



Source: Department of Finance data.

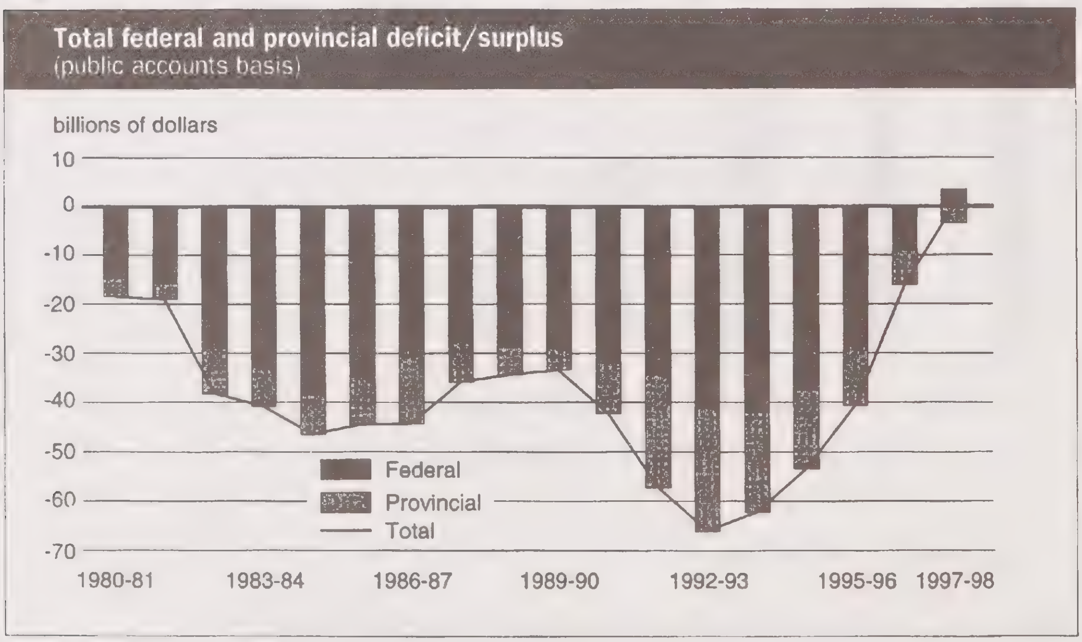
Last year, the Committee spoke about entering a new era. Clearly, with the first balanced federal budget in almost 30 years, that era has begun. However, the question of what this new reality

means remains unanswered. With repeated success on the fiscal front, many optimistic forecasts have been made about the size of the fiscal dividend, and many have proposed ways of using these new resources. But economic events suggest that caution continues to be the best approach. Expectations about new programs should not be raised so high that Canadians are most disappointed when we in fact achieve our greatest fiscal goals, namely the end of deficit financing and a reduction in government debt.

We strongly support setting a high priority on reducing Canada's indebtedness. The reason for that is we believe that the level of indebtedness that remains, while it is a great improvement and has certainly helped us in the recent period of instability is still too high, so Canada is still vulnerable to perturbations from outside this country...

Jean Van Loon (President, Canadian Steel Producers' Association, CSPA)

Despite the importance of continued caution, our recent successes indicate that we should look to the future with optimism. Challenges provide us with opportunities as well as obstacles. If we are to create a competitive economy, one that satisfies the needs and aspirations of Canadians, we need to seize these opportunities. Continued fiscal responsibility will help us do that.



Source: *Economic and Fiscal Update, October 14, 1998.*

Canada was the only one of the G-7 nations to register a surplus in 1997, almost 1% of GDP for the total government sector, when measured on a national accounts basis. This is in sharp contrast to 1992, when we registered deficits equal to 8% of GDP, the second worst record next to Italy. This fiscal improvement was the most dramatic of all the G-7 nations.

The budgetary surplus means that the net public debt fell from $583.2 billion in 1996-97 to $579.7 billion in 1997-98 — the first decline in the absolute level of the net public debt since 1969-70.

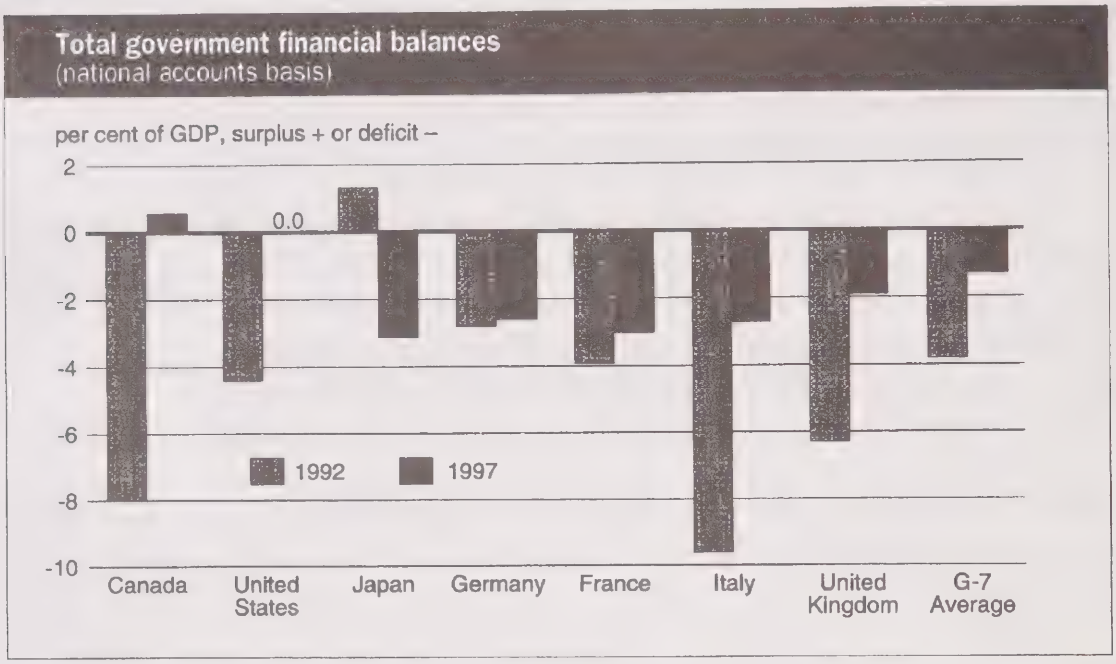
This was largely achieved because of the substantial drop in program spending by all levels of government. From 41.7% of GDP in 1992, to 33.8% of GDP in 1997, this represented a decline of over 19%. The provinces have also contributed significantly to this trend, with program spending as a percentage of GDP falling by about the same magnitude.

The federal budget balance has improved from a deficit of $42 billion in 1993-94 to a surplus of $3.5 billion in 1997-98.

Both levels of government in Canada have turned around their fiscal positions substantially. The debt-to-GDP ratio is now declining at both the federal and the provincial and territorial levels. The very obvious benefit of this turnaround can be seen in the decline in the interest burden. Debt charges, which were consuming more than 35 cents of every dollar of federal revenue in 1995-96, are now taking up less than 27 cents of every revenue dollar.

Overall labour market conditions have been healthy — 264,000 jobs have been created over the first nine months of this year, bringing the total number of jobs created to 636,000 since the end of 1996 and to over 1.3 million since the fall of 1993. This solid employment growth has driven down the unemployment rate from nearly 10% at the end of 1996 to 8.3% in September 1998 — its lowest level in eight years.

By all of these measures then, the fiscal performance of Canadian governments has improved substantially in the past few years. But in one respect, however, there is still much to be accomplished. Canada's overall government debt burden still exceeds the G-7 average by a substantial margin and is very much out of line with that in the United States. Twenty years ago, Canadian governments had accumulated debt equal to about 40% of GDP, approximately equal to that in the United States. Today, at more than 90%, our debt burden is one-half again as large as that faced by American governments.



Source: *Economic and Fiscal Update, October 14, 1998.*

THE ECONOMY AND THE BUDGET

The message is pretty simple from our point of view. Atlantic Canada and rural Quebec just have to diversify their economies and create sustainable jobs. Those jobs are going to have to be outside of the natural resource industries that so long have been part of the social fabric.

Ronald W. Bulmer (President, Fisheries Council of Canada)

Last year, this introductory chapter chronicled Canada's descent into fiscal difficulties and the measures that were undertaken to restore fiscal order. This year we look upon the horizon to see where current economic events might take us and to ensure that they do not return us to the fiscal abyss from which we have just escaped. Now that we have put the crisis in the state of the government's finances behind us, a more important consideration this year is the potential crisis in the state of the world economy.

Canada's economy has enjoyed a long and sustained period of expansion. Our growth has depended heavily on trade with the United States. Both economies are enjoying strong, non-inflationary growth - something we have not seen in the past. The danger of a domestically triggered recession, due to a tightening of monetary policy, is thus of considerably less concern now than it has been in the past.

Yet this does not mean that we should not worry about recessions — the East Asian crisis is making that clear.

The federal government's fiscal position, that of the provincial governments, and the state of the economy in general, are all much better than they were in 1994 when the Mexican peso crisis wreaked havoc with our finances. With the current East Asian crisis we are witnessing a forceful demonstration that the Canadian economy is still highly susceptible to external shocks. Our fiscal position is not so good that we can take a cavalier attitude to the effects of those shocks and not provide some insurance against them.

Corporate profits, despite the pressures from other areas of the world, do remain in relatively good health but we do have a concern about Canada's debt position and we do recommend that steps be taken to take some of that surplus and reduce our debt load with that.

Barry W. Pickford (Chairman, Stentor Tax Committee and Vice-President, Taxation, Bell Canada — Stentor Telecom Policy Inc.)

IMPACT OF INTERNATIONAL EVENTS

These shock waves have had a global impact. On August 27, 1998, the Dow Jones Index lost 4.2%, the TSE 300 lost 6%, and the London FT SE lost 3.2% of their respective values. (Stock markets suffered a further sharp decline when, on September 1, the Dow Jones Industrial average fell by 6% in value and the TSE 300 declined by 3.7%.) The Canadian dollar was trading as low as 63.3 cents American at that time.

This turmoil is affecting many countries, not just Canada. In Australia, another developed nation with a heavy reliance upon natural resources, the impact on the Australian dollar has been even more pronounced. In January 1997, the Australian dollar was worth about 76 cents American, versus 74 American for our own dollar. It had fallen to as low as 55 cents American, at the same time that our dollar had fallen to its own low of 63 cents American. Clearly then, the sharp decline in our own currency's external value is not a uniquely Canadian phenomenon.

Despite several interventions by the Bank of Canada in the foreign exchange market, during which it used large amounts of foreign exchange reserves to buy Canadian dollars, the Bank finally resorted to a 100-basis-point increase in short-term interest rates on August 27, 1998.[1] Some economists have been calling for far more significant initiatives on the part of the Bank of Canada and the federal government. However, lifting the value of the dollar by

1 As of November 19, 1998, the Bank Rate has been reduced three times, reversing 75% of the August increase.

one cent American would require a 100-basis-point increase in interest rates, according to economists at the University of Toronto. To offset the dampening impact on the economy that this interest rate hike would have, would require a $10 billion tax cut, according to that same group of economists.

This summer, as the financial problems in Asia and Russia worsened, the dollar's value declined to a series of NEW lows, closing at a record low of 63.31 cents U.S. on August 27.

While the Asian crisis started to manifest itself prior to the 1998 federal budget, it has significantly intensified since then. Many had hoped that it would amount to no more than "a bump in the road" on the way to continued economic prosperity. Instead, it has intensified, spread to other economies and exacerbated their own domestic economic woes. The extent of these events, and the magnitude of their effects, were not, and could not be, anticipated when the 1998 budget was being prepared. Still, they all have adverse consequences for the economy and the government's fiscal balance, and they must be taken into account now.

In contrast to the upbeat outlook for the Canadian economy that marked last year's budget, current global developments are putting a damper on economic forecasts. Private sector economists now predict only 2.9% growth for 1998, compared to predictions of 3.5% made earlier this year. The reason for this new found caution is the fact that about 40% of the world's economy is now in recession or close to recession. World output is now expected to grow by 1.5% in 1998, compared to 4% in the previous two years — it is expected to fall further to 1% in 1999.[2] World growth of 1.5% is consistent with the global growth rate that characterized the 1981-82 recession, which was the worst in North America since the Great Depression. Thus the East Asian crisis has the potential to become a global economic crisis.

Canada is an important net exporter of commodity-based products to the rest of the world. In 1997, Canada had a net surplus on commodity trade of about 7% of GDP, or $62 billion.

Although most of Canada engages in relatively little trade with East Asian countries (British Columbia being the exception), our country still relies to a considerable extent on commodity-based exports (about 36% of the total). This statistic is skewed primarily because of the Ontario economy, where only 11% of exports come

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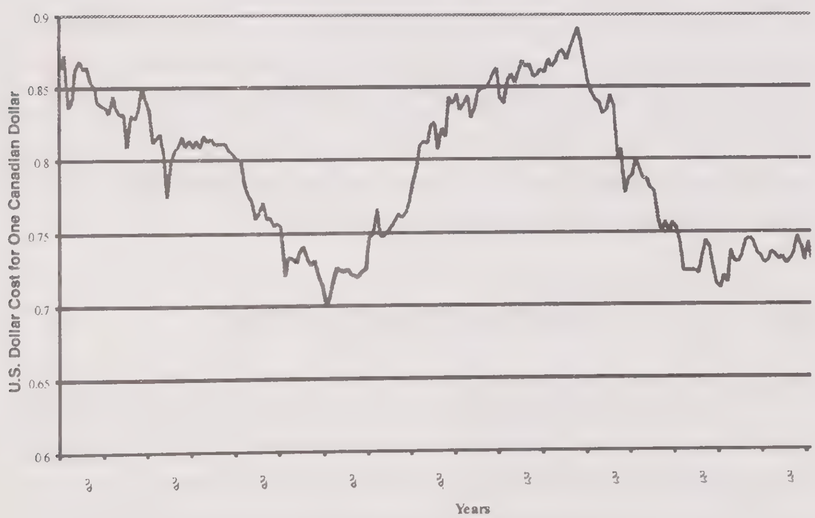
2 *TD Quarterly Economic Forecast*, September 22, 1998.

from resource industries. West of Manitoba, the ratio is 75% and higher. In the Atlantic Provinces it is about 80%, while it is 38% in Quebec.[3]

The global economic woes have had a dramatic impact on world commodity prices and it is primarily in this way that these troubles are affecting the Canadian economy. *The Economist* All-Commodities Price Index has fallen by 30% since mid-1997 and now stands at the lowest real level in 25 years. *The Economist* Industrial Commodities Index stands at its lowest real level since the 1930s.[4] This effect might be further compounded if Russia responds to its own economic turmoil by dumping its commodity production on world markets, further reducing commodity prices. Declining commodity prices are the primary reason for the decline in the value of the Canadian dollar.

Commodity prices have fallen about 28% since their peak at the end of 1996. Real commodity prices have drifted down since the early 1970s. In real terms, they are now close to their lowest level since the early 1970s.

CANADA - U.S. EXCHANGE RATE



* Closing spot exhange rate, at the end of the last day of each month
Source: Statistics Canada, CANSIM, 20 Nov. 1998

3 Linda Nazareth, "Outlook for the Provinces," CIBC Economics Online, September 24, 1998.

4 *The Economist*, On the Edge, September 3, 1998.

While commodity prices have played a role in the decline in the external value of the Canadian dollar over the past 20 years or so, our economy has evolved and our reliance on commodity-based exports has declined significantly.

Another way in which this turmoil has a direct impact on Canada is through reduced investor confidence, which manifests itself in lower asset prices. The drop in North American stock prices is a tangible example of this.

Finally, as 40% of American exports go to developing nations, a significant downturn in those economies is bound to slow American growth, which will consequently have an adverse effect on Canada. Central Canada, thanks to the smaller contribution of commodity exports to its overall economy, has so far been largely shielded from these events. However, if the American economy slows substantially, the effect will then be transmitted to Ontario and Quebec.

To see how this is affecting the Canadian economy, one need only look at the recent forecasts for economic growth and compare them to the private-sector forecasts used by the budget. Real growth was predicted to be 3.5% in 1998 and 2.9% in 1999. (The government's prudent growth forecasts were 3% and 2.5% respectively.) This autumn, Doug Porter of Nesbitt Burns Inc. is predicting growth of 2.9% in 1998 and 2% in 1999. CIBC is predicting growth of 3.2% and 2.5% respectively, while the TD Bank is most pessimistic of all, with growth projections of 2.8% in 1998 and 1.8% in 1999. This means, according to the TD Bank, that the unemployment rate in Canada will essentially remain where it is today for the next two years.

THE NEED FOR CONTINUED PRUDENCE

Not only do these revised projections demonstrate that the government's prudence has been warranted, it can be argued that the government should have exercised even more caution. The current situation is an eloquent reminder of how fragile the global economy is, despite outward appearances of strength.

Therefore it is evident that there is a need for continued prudence on the part of the federal government as it prepares its 1999 budget. Suggestions to the contrary give not only a false sense of security about the stability of the world economy, but also tarnish the budget-making process, implying political motives for

what is merely judicious stewardship of the public finances. Indeed, many economic forecasters are admitting that by the time 1998 is over, the federal government's original assumptions about the economy will be closer to the mark than were those of the private sector.

In the past, the federal government has set a prudence factor for interest rates from anywhere between 50 and 100 basis points — it had some flexibility to adjust only the short-term prudence factor. Last year the Committee recommended that the federal government use a prudence factor of 50 to 100 basis points for both short- and long-term interest rates. The government accepted this recommendation and the 1998 budget increased the prudence factors to 100 basis points for both short- and long-term interest rates in 1999, citing the Asian economic and financial turmoil as justification for the move.

Private sector forecasters expect the 3-month Treasury Bill rate to average 5.0% in 1998 and 5.2% in 1999.

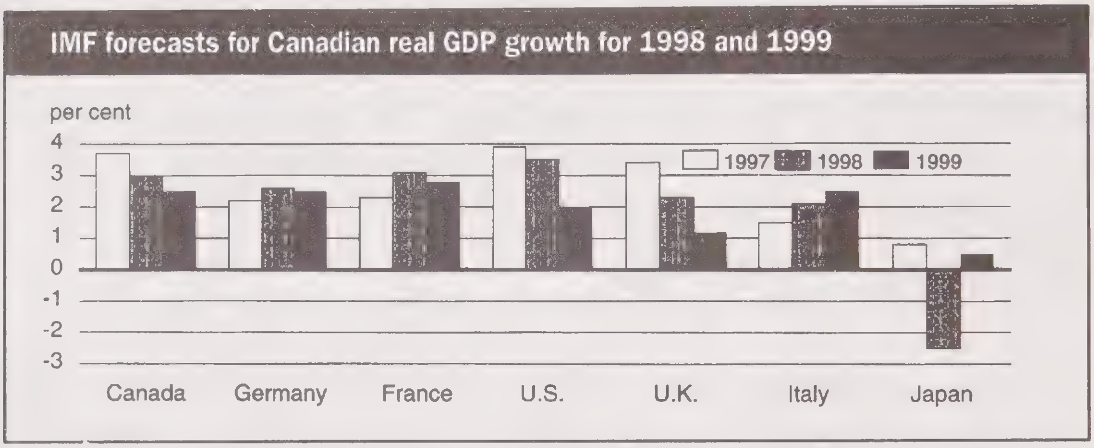
This new measure, a reflection of the Committee's foresight, has been justified by events. The average private sector forecast, as of February 1998, for the 3-month Treasury Bill rate, was 4.6% for 1998 and 1999. This is up substantially from the 3.2% that the rate averaged in 1997. This forecast recognizes the steady increase in the rate through 1997. It reached 5.2% by the middle of September.

The dollar appreciated significantly in the late 1980s and early 1990s following very steep increases in Canadian interest rates, which took them to 5 percentage points above U.S. rates

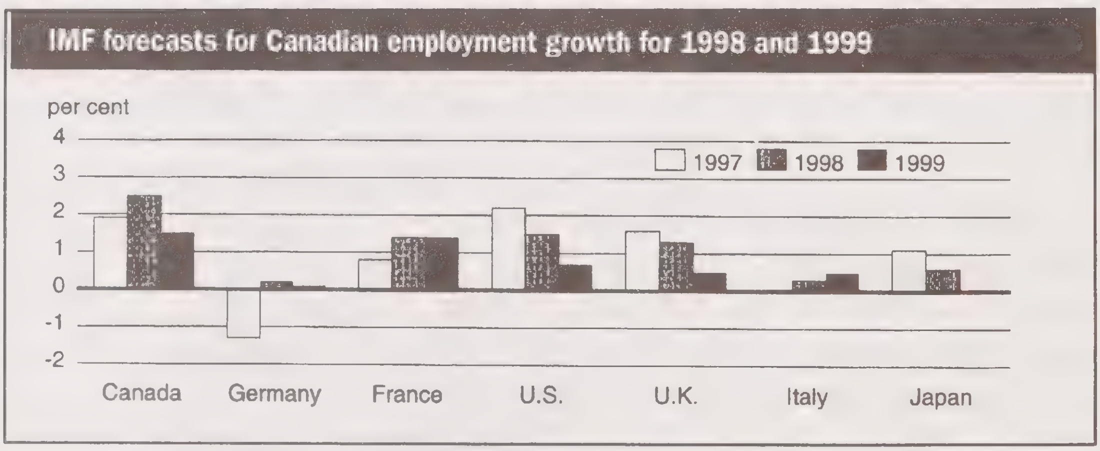
Developments with respect to longer-term interest rates were different. These rates were in decline through 1997, falling by about 100 basis points to 5.6%. Private sector forecasts saw them as being steady at about 6% on average through 1998 and 1999. The government chose to add a 50-basis-point prudence factor for 1998 and a 100-basis-point factor for 1999. It assumed as a result that the rate would be 6.4% in 1998 and 7% in 1999. Long-term rates continued to fall through the early part of 1998, but then rose again as a result of the East Asian turmoil and pressure on the dollar. From the end of May to the end of August, the 10-year benchmark bond rate rose by over 30 basis points to 5.67%. During the month, the spread between Canadian and American 10-year bond yields grew by 50 basis points and Canada lost its short-lived distinction of enjoying long-term interest rates that were below those in the United States. These long-term rates have subsequently fallen again and were closer to 5% at the end of September.

... 264,000 jobs have been created over the first nine months of this year, bringing the total number of jobs created to 636,000 since the end of 1996 and to over 1.3 million since the fall of 1993.

Economic events are affecting Canada in the form of slower economic growth. The effect is not being transmitted through higher interest rates, as has often been the case in the past, but more directly through falling commodity prices, reduced exports and slower economic growth in general.



Source: *Economic and Fiscal Update, October 14, 1998.*



Source: *Economic and Fiscal Update, October 14, 1998.*

Despite these words of caution, the Committee does not wish to suggest that Canadians take an overly pessimistic view of the Canadian economy. Growth should continue in virtually all provinces. Employment will continue to grow and consequently government balances should continue to improve. Inflation and

interest rates will continue to stay low and this relative price stability will allow the Bank of Canada to pursue a monetary policy geared toward continued economic expansion.

One area, however, where the economy is clearly underperforming is with respect to labour productivity. In Canada, real GDP per employee is expected to grow by only 0.4% this year and next, and by 0.8% in the year 2000. This contrasts sharply with the United States. In that country, real GDP per employee is expected to grow by 2.1% in 1998, 1.5% in 1999 and 1.7% in the year 2000. Over these three years, American productivity will have grown cumulatively by about 400 basis points more than Canadian productivity. Not only does this help to explain diverging standards of living between the two countries, it does not bode well for the future competitiveness of the Canadian economy. It is this challenge that the Committee believes should be addressed by the federal government through the establishment of a **Productivity Covenant** that would provide a benchmark against which all federal government initiatives are judged.

CHAPTER 2: THE PRODUCTIVITY COVENANT: A COMMITMENT TO A BETTER STANDARD OF LIVING FOR CANADIANS

Canadians have traditionally enjoyed a high standard of living. This is due to a remarkably rare combination of factors. To begin with, our country has been blessed by nature. Canada has vast stretches of rich soil, which has made it a world leader in agriculture. We also enjoy abundance in the areas of forest products, precious metals, base metals, minerals, oil and gas, and several other sectors.

We have also benefitted from our geographical proximity to the United States, the world's largest and most dynamic economy, an immense market for goods produced in Canada, and a convenient supplier of the latest goods and techniques.

Finally, and most importantly, our standard of living is due to the kind of people who settled and developed this country. For centuries, the land now known as Canada has been built by hard-working, determined men and women who have always believed that tomorrow would be better than today. In the face of such obstacles as great distances, difficult terrain and a harsh climate, they carved out a rich country.

Canada has changed a lot over the years, going from being a largely rural, agrarian society to a leading industrial power during and after the Second World War. Our country has continued to innovate in the years since, securing a strong position for itself in such areas as telecommunications, transportation and information technology. The rest of the world is also changing, and our competitors are transforming themselves quickly. To maintain our enviable standard of living, we have only one option: we must increase Canada's productivity.

Before going on, it is important to understand what is meant by "increased productivity." Increased productivity means getting better results with the same effort. It is the result of innovation and

invention, from doing new things with the tools we already have. Higher productivity means producing different and more highly valued goods, or providing a more richly rewarded service.

Improving productivity means helping Canada become a nation of high-skills, high-wage jobs. In the global economy, this will be the only way to maintain our high standard of living over the long term. In other words, higher productivity is the key to future prosperity.

The relationship between productivity and prosperity becomes clear when one considers recent trends. Of course, Canadians take great pride in the fact that the United Nations has repeatedly ranked Canada number one in the world according to its Human Development Index. This measure of the quality of economic, social, and political life is a composite of objective and subjective indices, meant to provide a sense of overall well-being. Yet in their day-to-day lives, an increasing number of Canadians are concerned about their economic well-being.

There is no perfect measure of living standards. The most commonly used measure is real GDP per capita, which provides us with a gauge of the amount of goods and services that can be made available to each Canadian. This measure, while imperfect, is readily available and free of value judgments. An improvement in the standard of living of Canadians comes about from two factors, an increase in productivity of those Canadians who are working, by either organizing our production in more efficient ways, or by having access to more capital, and an increase in the proportion of Canadians who have jobs.

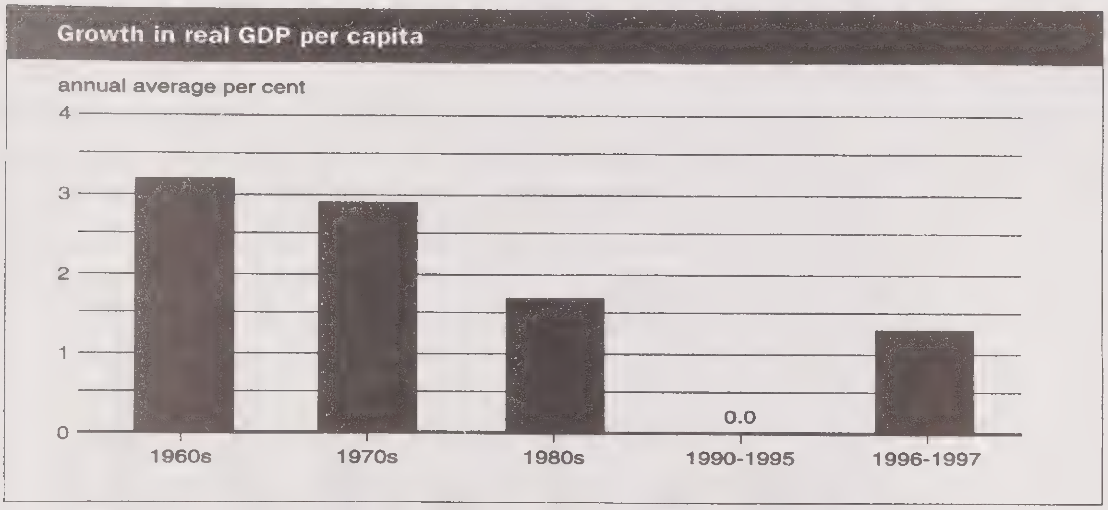
PRODUCTIVITY: HOW CANADA COMPARES

The rate of growth in labour productivity has decreased steadily since the 1960s in all of the G-7 countries

The Economic and Fiscal Update, October 14, 1998

By this measure, Canadians appear to enjoy a high standard of living. According to the Conference Board of Canada, we are fourth in a group of seven comparator countries. Using GDP as a measure, our standard of living is about four-fifths that of the United States and approximately equal to that of Germany and Japan. What really matters, though, is how we stand compared to the United States, our geographical neighbour, by far our most

important trading partner, and our cultural parallel, which is sometimes a source of highly skilled labour and at other times a destination for our highly skilled labour. Whether it be goods and services, capital or labour, the United States is the country most like our own and thus the close second choice as a market for our goods, investment opportunities and place of residence. It is therefore the country against which we will naturally make comparisons.



Source: *Economic and Fiscal Update, October 14, 1998*

In the 1970s, Canada's standard of living relative to the United States improved substantially. In the 1980s, it was relatively stable at the new, higher level. In the 1990s, we have seen a sharp decline, eliminating all of the gains of the 1970s. Indeed, in 1990 our standard of living stood at 95% of that enjoyed by Americans.[5] The 1990s, therefore have been very different economic periods for Canada and the United States, as we have lost ground. This can be seen in the accompanying chart that shows no growth in real GDP per capita from 1990 to 1995. But as importantly, the chart shows a pronounced decline over the longer term, in the rate of growth of real GDP per capita. Even the increase in 1996-97, which is lower when combined with the results for 1990-95, does not contradict

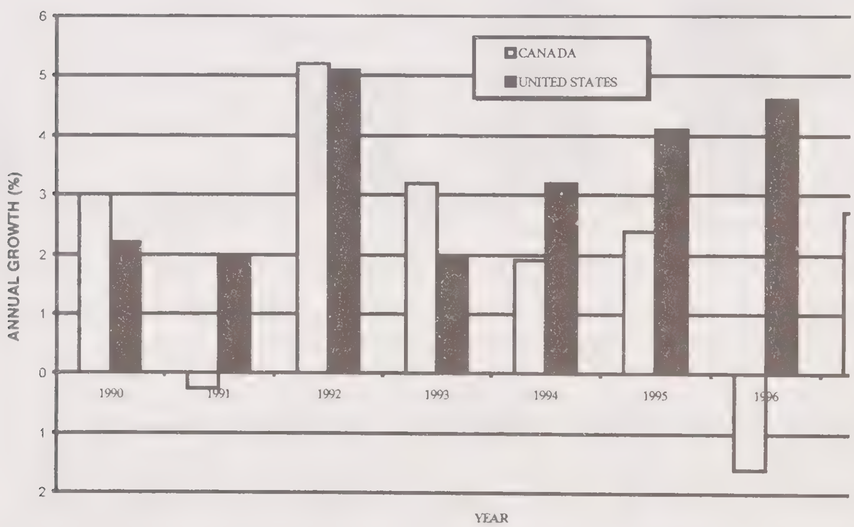
> *"The stagnation of the rate of growth of the GDP in the first half of this decade..."*
>
> **The Economic and Fiscal Update, October 14, 1998**

5 Canadian Federalism and Economic Union: Partnership for Prosperity, Canada, 1991, p. 3.

the long-term decline. In other words, it is more difficult to provide the increasing living standards to which an earlier generation had become accustomed.

Canadian labour productivity in the manufacturing sector has lagged behind growth in American productivity throughout this decade. At 2% annual growth, it pales beside the 3.5% annual growth in American manufacturing productivity. As labour compensation in Canada is increasing at only slightly less than in the United States, the stage is being set for a Canadian manufacturing sector that cannot compete with its American counterpart.

LABOUR PRODUCTIVITY GROWTH IN MANUFACTURING



Due to the declining dollar (it fell by 22% against the American dollar this decade) a large part of the manufacturing sector has been able to maintain its competitiveness. But the external value of the dollar is a variable which is not under the control of manufacturers. Indeed, the consensus is that the external value of the dollar is worth about 83 cents American. This is based on the concept of purchasing power parity, which compares the amount of goods and services the Canadian dollar can buy in Canada, and determines how many American dollars are needed to buy the

same basket of goods and services in the United States. As a measure of the long-term value of the dollar, it suggests that the Canadian dollar is significantly undervalued today. This does not bode well for any sector of the economy that is relying upon a low-valued dollar to be able to profitably compete with foreign rivals. The Conference Board of canada has concluded that this relative decline in labour productivity is not a temporary phenomenon.[6] This will have a negative impact on our ability to attract investment from outside Canada.

Taken in isolation, Canada's performance in relation to the United States might be interpreted as a reflection of the phenomenal performance of the American economy rather than any fundamental weakness in the Canadian economy. Yet over the past decade or so, Canadian labour productivity in manufacturing has lost ground against a number of other industrialized countries, such as Japan, Germany, France, the United Kingdom, Belgium and Finland.[7] Clearly, then, the decline in Canadian productivity is an indication of a fundamental weakness within our system. The Minister of Finance's 1998 *Economic and Fiscal Update* makes essentially the same point. It notes that although productivity growth has declined in all G-7 nations since the 1960s, Canada has recorded the lowest rate of labour productivity growth of all G-7 nations during the last two decades.

In Canada, the rate of growth of labour productivity has declined from more than 2% per year.

The Economic and Fiscal Update, October 14, 1998

Economic growth can come about in essentially two ways, by using more inputs to produce more output, or by using the same inputs more efficiently and hence raising their productivity. An examination of 19 OECD countries for the period 1979 to 1996 indicates that Canada has achieved its growth in the same way the Swiss have achieved their growth. Both countries have relied upon a greater use of capital and labour to offset declines in total factor productivity. Every other country surveyed had been able to

6 Conference Board of Canada, Performance and Potential 1998, Ottawa, 1998, p. 29.

7 Richard Harris, "Long-Term Productivity Issues," in T.J. Courchene and T.A. Wilson eds., *Fiscal Targets and Economic Growth*, John Deutsch Institute for the Study of Economic Policy, 1997.

augment growth via productivity gains.[8] This presents challenges for the Canadian economy. The Economic and Fiscal Update notes that the bulk of the baby-boom generation will be retiring within the next 25 years. This could reduce substantially the proportion of the population that is working. This may challenge future growth as Canada has relied on rising employment rates and not enhanced productivity to fuel its growth.

Principles of Enhanced Productivity

That economic growth can have a powerful effect on our standard of living is evident from the arithmetic of compounding. As economist Richard Lipsey explains: "Economic growth at 3% per year doubles national income every 24 years and doubles it again until income has been multiplied by 20-fold in a century! Typical catchup growth rates of 7%, which have been registered by some Asian countries over recent decades, double the national income every 10 years and have raised citizens from abject poverty to levels about half those currently enjoyed in Canada and the United States (and to levels that Canadians and Americans experienced as recently as the early 1960s)."[9] Clearly, then, strong economic growth can be a powerful tool for resolving many of society's economic and social ills.

History shows that economic growth is not simply about achieving efficiency in a static sense. Nor is it purely a matter of using more labour or more capital, or doing the same job more effectively. While increasing the capital stock and the employment rate, and finding new ways to extract resources do contribute to growth, these factors cannot by themselves explain the growth in our prosperity during this century.

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8 William Robson, "Fiscal Policy for Economic Growth: Comments," in T.J. Courchene and T.A. Wilson eds., *Fiscal Targets and Economic Growth*, John Deutsch Institute for the Study of Economic Policy, 1997.

9 Richard G. Lipsey, "Economic Growth, Technological Change, and Canadian Economic Policy," C.D. Howe Institute Benefactors Lecture, 1996, p. 4.

Economic growth is much more about changes in technology that allow us to produce new goods and services and to produce them in new and innovative ways. It is about invention and innovation, scientific experimentation and new management techniques.

Economic growth does not kill jobs, it creates more and better jobs. It changes the nature of work. For more and more people in the industrialized world, work is becoming more interesting, challenging and creative. Those with higher levels of education have access to greater opportunities while those with little education are left options only in low-wage, declining sectors.

Obviously, as the entity responsible for knowledge and learning, industrial standards, tax policy and numerous other areas, government has a crucial role to play in increasing productivity. Governments can positively affect productivity gains and economic growth. This is done primarily by creating a socio-economic system that fosters change, by allowing for the freedom to innovate, by allowing the market to reward success and by refusing to impose a particular model of development on the economy. Some key principles are:

- Embrace change and resist the temptation to protect vested interests from such change. Free trade represented the embrace of change. Financial sector restructuring can also be seen in the same light.

- Keep regulation flexible so that new techniques and new service providers are allowed to enter the market and serve consumers. This requires a lack of entry barriers and a lack of restrictions on innovative ways of providing goods and services.

- Recognize that important assets are created by human initiative and are very mobile. Less and less is our wealth the result of resources in and on the ground, or in the sea, and more and more is it the result of tangible and intangible assets that humans create. We need incentives to create those assets and to keep them here.

- With globalization, we must be aware of the importance of foreign direct investment, both into and out of Canada.

- Recognize that there is a legitimate role for government in producing an educated workforce and investing in human capital. There is also a legitimate government role in the creation and diffusion of scientific knowledge wherever the market cannot do so.

Setting up the Framework for Change

Being committed to a Productivity Covenant means setting up a framework in which it can be applied. The following is a strategy for change.

1. Establishing a Healthy Fiscal, Monetary and Social Climate

- Government should contribute to the savings of the economy, not be a drain upon it, i.e., it should reduce the burden of the debt.
- Price stability should continue to be the focus of monetary policy.
- A climate for good jobs and a solid society should be established, with world-class education and health care, plus safe homes and safe streets.

2. Getting Government Right

- Government should be revolutionized to take advantage of the same management innovations being used by the private sector.
- Crown corporations' continued status as affiliated agencies of the government should be regularly evaluated.
- Resources should be used more efficiently.
- Accountability for spending should be clearly established.
- Program review should be continued and integrated into the Productivity Covenant.

3. Capitalizing on Market Strengths

- Government policy should allow the market to work efficiently so that resources (human, capital and technical) are directed to their most efficient uses and are not burdened with excessive regulatory costs. At the same time, government policy must ensure that the extremes of the marketplace do not undermine the health of the economy.
- The tax/transfer system should encourage saving and investment, and work effort.
- Tax fairness should apply to working families so that policy does not distort economic behaviour.
- Individuals should take responsibility for their actions and enjoy the rewards of their successes.

4. Investments for a Productive Economy

- The development of human capital should be promoted, along with the recognition that this capital needs to be continually upgraded.
- It should be recognized that infrastructure includes a state of the art and widely diffused knowledge base.
- Physical infrastructure should support productivity.

5. Fostering Openness, Competition and Innovation

- Free trade should be further encouraged, internationally and especially internally.
- Barriers to entry should be eliminated.
- New techniques for producing goods and services or serving customers should be allowed. A framework for E-commerce should be established.

Having established a framework for the promotion of productivity enhancement, it is useful to examine correct measures taken by the government that would meet the Productivity Covenant.

Productivity Steps in the Right Direction

The most dramatic features that distinguish government policy today from that of a decade ago lie in fiscal and monetary policy. The federal government is running surpluses for the first time in three decades and inflation is at a historic low. These two facts combine to bring us sustainably low interest rates that have not been seen for a generation and a half.

This is important for promoting productivity growth because it leads to more investment, and more efficient investment. The elimination of government deficits means that the government sector is no longer a drain on the savings of Canadians. Resulting low interest rates also make investment more attractive. Moreover, low and stable inflation also adds to a climate that promotes investment.

The next most important initiative of the government was to reform the system of (un)employment insurance. The primary effect is to make the labour market work more efficiently. In the past, employers too often had to compete for labour with an unemployment insurance program that promoted unemployment and attracted labour to the less promising sectors of the economy. The system did not encourage the unemployed to acquire new skills, explore opportunities in new industries or take advantage of stronger economies in new locations. With the reforms in place, workers are more likely to be directed to sectors where their potential is put to the best use. They benefit materially from this, and so does our society.

Not only is productivity enhanced when labour markets function well, it is enhanced when the markets for goods and services work well. Trade increases competition, promotes specialization and consequently enhances productivity. The liberalization of international trade has been promoted via The North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) and further initiatives have been undertaken to support free trade within Canada.

For markets to work well, they must be relatively free of barriers to entry, as well as regulations and subsidies that distort the allocation of resources. Initiatives that have reduced subsidies and privatized government commercial enterprises have led to enhanced efficiency.

Tax policy also has an important effect on productivity. The child benefit initiatives are meant to support working parents and thus help to break down the welfare wall that has traditionally existed. General tax relief will reduce the disincentives to work and invest, and will help to make the Canadian tax system competitive with its American counterpart. By reducing high-marginal and average tax rates, Canadians and foreigners will be encouraged to invest and work in Canada.

With NAFTA, the North American market can be served from Canada, the United States or Mexico. The cost-benefit calculus undertaken by individuals and companies can be helped by lower future tax rates in Canada. This is not a trivial concern. By 1996, the United States was attracting almost one in every four dollars of foreign direct investment. This was substantially higher than earlier in the decade. At the same time, China's share of foreign direct investment had also grown to between 10% and 15%. Canada's share grew slightly over the same period, only to fall in 1996.[10] As the Conference Board further points out, we are being subjected to more vigorous competition for foreign investment. The country of choice for American investors is now China. The country of choice for those wishing to invest in North America is the United States. The Canadian economy needs to develop some real advantage if it is to continue to attract foreign investment the way it did in the past. Investors now have many more choices.[11]

Ten years ago, a billion people lived in a market economy. Today, 5 billion people live in a market economy.

If Canada wants that foreign investment, it must offer better profit opportunities than those new market economies.

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10 Conference Board of Canada, Performance and Potential 1998, Ottawa, 1998, p. 64.

11 James D. Wolfensohn, "Remarks at the Council of Foundations Luncheon," Washington, D.C., 1998.

Finally, the government has initiated a number of measures designed to enhance accessibility to post-secondary education and to help finance research and development in Canada. These are the areas in which government initiatives come closest to directly supporting productivity growth. The measures include the Canada Millennium Scholarships, the Canada Foundation for Innovation, Networks of Centres of Excellence, renewed funding for the granting councils, and tax measures to help students, among others. These measures are designed to enable young Canadians to access post-secondary education, and use that education as productive participants in the workforce. They also recognize the need for lifelong learning.

It is this kind of approach that can help to increase the standard of living of Canadians. It is the kind of approach that ensures that the increase in real GDP per capita enjoyed during the past two years will be part of a longer-term trend and not just a short-term anomaly.

Canadians take pride in a society that is caring and compassionate, that is concerned about poverty and unequal incomes. But to do all that we need a prosperous economy. Enhanced productivity promotes a prosperous economy. It is society's best friend.

There are many historical examples of productivity gains benefitting human welfare, from the industrialization of the English textile industry which helped to clothe the world, to the agricultural revolution that fed the world and released huge amounts of labour to work in the manufacturing sectors, to the computer revolution which is changing the face of our daily lives. All of these developments presented some challenges to workers and entrepreneurs, but in the end they all generated significant benefits to workers and consumers. History has demonstrated that productivity has also served Canadians well.

It is vital that government policy exploit the benefits that come from enhanced productivity. **The federal government should, therefore, commit to a Productivity Covenant with Canadians. Just as Program Review is an ongoing examination of federal spending, this Covenant should subject all existing**

government initiatives (spending, taxation and regulation) to an assessment which evaluates their expected effects on productivity and hence the standard of living of Canadians. Every new budgetary initiative should be judged according to this productivity benchmark. In the past, governments have pursued a number of policies that have adversely affected Canadian productivity growth, not deliberately but inadvertently. By requiring that every new or enhanced action be subjected to a productivity test, government policy will actively promote growth in our standard of living.

CHAPTER 3: A PRUDENT BUDGET-MAKING PROCESS

A. A SUCCESSFUL BUDGET MODEL

1. *Prudent Budgeting*

The federal government has developed a budgetary model that has proven to be extremely successful in turning around our fiscal situation. This model was vital to achieving the recent reductions in the federal deficit. Enhanced credibility of the government in the eyes of financial markets, the business sector and individual Canadians is important in enabling the government to signal its intentions to the private sector. More importantly, a credible and prudent fiscal policy helps to keep interest rates in check, which in turn helps the government pay down the debt and reduce taxes. It also helps Canadian families directly because it reduces the costs of home ownership and lowers financing costs associated with the purchase of other consumer durables.

The prudent economic assumptions used in past budgets were established in the following manner: Prior to the publication of the budget and the preparation of the *Economic and Fiscal Update*, private sector forecasters were surveyed with respect to their expectations regarding future economic conditions. In recent years, this sample has comprised 15 to 21 respondents. The prudent assumptions used by the government added 80 basis points to the private sector average forecast for short-term interest rates and 50 basis points to the private sector average for long-term interest rates. This Committee recommended in its first consultation report that the prudence factor be between 50 and 100 basis points. In the past, the government has used a prudence factor of as low as 50 basis points for short-term rates.

This practice had two significant effects. The government's calculation of its debt servicing costs were raised as a result, and along with it, estimates of the size of the budget deficit — for example, a 100-basis-point increase in interest rates reduces the budget surplus by $1 billion in the first year. The assumption of higher interest rates also reduced the government's estimates of

economic growth, leading to estimates of lower revenue and higher spending. The 1998 budget contained prudent assumptions about nominal GDP growth that were 60 basis points lower than the private sector average for 1998 (4.1% vs. 4.7%) and 100 basis points lower for 1999 (3.9% vs. 4.9%). Sensitivity analysis contained in that budget indicated that a one percentage point decrease in the nominal growth rate would reduce a surplus by $1.3 billion. For the second year of the government's planning horizon, these prudent assumptions would reduce the government's estimate of the surplus by about $1.5 billion.

1.1 Contingency Reserve

The second component of prudent budgeting was the explicit inclusion of a Contingency Reserve. Initially, the government used a $2.5 billion Contingency Reserve for year one in its two-year planning horizon and a $3 billion reserve for year two. The higher reserve was justified because of the greater uncertainties that exist when planning further into the future. Now a $3 billion Contingency Reserve is used for both years of the planning period.

A $3 billion Contingency Reserve protects against the first year effects of a 300-basis-point increase in interest rates or a 2.3 percentage point decrease in nominal GDP growth. Prudent economic assumptions and the Contingency Reserve, combined, provide a $4 billion deficit cushion in year one of the budget horizon and a $4.7 billion cushion in year two.

The government does not allow the Contingency Reserve to be used to finance program spending. If it is not needed, it will be used to reduce the Government of Canada's net debt. All of the Contingency Reserve for 1997-98 went to debt reduction.

The Committee believes that the practice of prudent budgeting should continue — it is as vital in a world of debt reduction as in a world of deficit reduction. Moreover, many of the economic, financial and political risks that existed a few years ago will still be present in the future. The economic and financial turmoil in much of the world are examples of such risks. They originate outside Canada and are beyond our control.

In the few short years that this Committee has been holding pre-budget consultations, we have been told repeatedly that governments must use prudence when drafting budgets. Of course, prudence is always appropriate. Inflation remains under control in most nations, reducing the chances of a recession triggered by monetary policy. But the near-term outlook for the Canadian economy has been downgraded this year and economic forecasts became more pessimistic as the year progressed. And, of course, political uncertainty is always a factor to be considered.

The elimination of the deficit does not lessen the importance of prudence. While federal deficits contributed to economic risks in the past, they were only part of the equation. We still have highly indebted governments, and until that indebtedness declines substantially, the government sector will continue to be a source of potential financial risk. Even though the federal government has made its debt structure more manageable, the sheer size of the debt and the heavy debt-servicing burden means that a very large portion of government spending continues to be beyond its direct control.

The risks involved in budget making have not disappeared, or even declined substantially. Recent practice has served Canadians well and it should be continued. As the government has increased the term-to-maturity of its average debt outstanding, we believed last year that it should be able to increase the prudence factor with respect to longer-term interest rates when circumstances warrant, as it had with short-term interest rates. The Committee is pleased that the government took our advice.

Thus, the Committee makes the following recommendations:

The Committee recommends that the Government of Canada continue to use prudent economic assumptions in the formulation of the budget.

The Committee recommends that assumptions about both short- and long-term interest rates continue to be set 50 to 100 basis points higher than the private sector average. The Minister should alter the prudence factor as circumstances warrant.

The Committee recommends that the government continue to employ a Contingency Reserve, which should be set at $3 billion per year. As at present, the Contingency Reserve should not be used to fund either increased program spending or tax cuts.

2. *Budget Targets*

Another of the government's budgeting innovations was the replacement of the traditional five-year projections with two-year rolling targets. The five-year forecasts were abandoned because of the inability of the government to accurately project that far into the future. The results frequently proved to be so inaccurate that the entire process of longer-term projections lost all credibility. On the other hand, two-year rolling targets are sufficiently immediate that the economic data upon which they are based is much more accurate, so only extraordinary events would excuse any failure to meet them. This practice also prevents the government from delaying required action until later in the planning period. As the Minister of Finance has stated on numerous occasions, these targets help to provide a standard to which the public can hold the government accountable.

Recent events demonstrate clearly the benefit of a two-year planning horizon. Over the course of nine months, private sector forecasters have revised downwards by 60 and 70 basis points respectively, their growth estimates for 1998 and 1999. As a result of the Minister's prudence, he is proving to be a more accurate economic forecaster than the private sector.

The Committee believes this practice has served Canadians well and should be continued.

Thus, the Committee makes the following recommendation:

The Committee recommends that the government continue to use two-year planning horizons for the conduct of fiscal policy.

The government has done more than make budgetary projections over a two-year period. However, it set targets to which it was committed and these targets became the benchmark against which the government's fiscal policy was judged. This practice brought transparency to government policy and imposed accountability on its actions. The fact that deficit targets were bettered every year earned the government a degree of credibility that had been lacking in the past.

Having witnessed the value of deficit targets in restoring fiscal balance, the Committee favours their continued use in the new fiscal environment. What, however, should these new targets be?

Last year the Committee recommended that the government target a balanced budget for 1998-99 and all subsequent years, based upon prudent economic assumptions and a $3 billion Contingency Reserve. We also recommended that the unneeded portion of the reserve be committed to debt reduction.

The Committee believes that this should define the minimum path of debt stabilization. According to the *Economic and Fiscal Update* 1998, the 2002-2003 debt-to-GDP ratio would fall to 55% if we enjoy a 4% annual growth in nominal GDP and balance the budget every year. With 3.5% annual growth, the ratio would fall to 57%. These growth rates are not unreasonable, even with today's lower growth forecasts. The debt-to-GDP ratio would be about 1.5 percentage points lower if the government could pay down the debt every year by $3 billion. This strategy would put the debt-to-GDP ratio in the middle of the Committee's target range, as recommended last year.

The Committee recommends that the government take steps to accelerate the downward trend in the net debt-to-GDP ratio and not rely solely upon growth in the economy. The unneeded portion of the Contingency Reserve should be applied to debt reduction.

These recommendations would help ensure that the government need not run a deficit in future years. With the continued use of a Contingency Reserve, it means that the government must plan for an underlying surplus of $3 billion per year. In the absence of unforeseen events, the net debt would decline by at least $3 billion per year.

Deficit reduction and balanced budgets are goals that lend themselves to short-term targets. A debt-to-GDP target is a longer-term goal.

We note that in 1985-86 the net debt amounted to about 50% of GDP and grew steadily for 10 years, peaking at 72% of GDP. It was during this period that the damaging effects of fiscal excesses had the greatest impact.

The Committee recommends that the federal government establish a long-term target for a sustainable debt-to-GDP ratio.

The Committee recommends that the federal government establish an interim debt-to-GDP target range of 50% to 60%, to be achieved in this mandate.

B. Prudent Stewardship and the Promotion of Productivity

The federal government will soon be in a fiscal position to address the vital concerns of Canadians regarding taxation, health care, education and competitiveness.

The Committee wishes to make clear that while we expect the government to have resources to spend in the near future, these should be spent with care, with a view to achieving measurable results and within a framework of accountability. We should not use the existence of budgetary surplus as an excuse for spending more money. New resources, whether they are invested through new programs or significant changes to existing programs, should be subject to some form of performance guidelines. These guidelines would spell out what the program intends to do and how its results will be measured. If it fails and cannot be improved, the program should be terminated.

Safeguards should be implemented before a new program is initiated. Program Review provides such safeguards and the Committee believes that all new initiatives must be rigorously put to the test of Program Review.

Thus, any new initiative must demonstrate that it is in the public interest by addressing an evident problem. If there is a problem, is it one that can best be resolved by government or would the private or voluntary sectors be more appropriate? If it is a problem for government, is the federal government the appropriate level to deal with the problem? And if so, what is the most effective and efficient way to deliver the program? Of course any new program must meet the test of affordability. While affordability is a necessary requirement, we must not presume that it is a sufficient basis for a new program.

The Committee wishes to stress that this review would not be an exercise in empire building but rather the implementation of a new set of checks and balances to ensure Canadian taxpayers get real value for their tax dollar when it comes to new programs.

The Committee wishes to take the concept of Program Review one step further. We want to put it within the context of an overall strategy of enhanced productivity growth in the Canadian economy. This Productivity Covenant would apply to all government activities and initiatives, taxes, spending and regulation.

The Committee recommends that any new spending initiatives be subject to the rigorous and detailed test of the principles of Program Review and that the results of that review be published at the time any new program is announced.

The Committee recommends that a comprehensive strategy for productivity enhancement be undertaken by the government and that a Productivity Covenant be established against which all federal initiatives would be judged.

CHAPTER 4: TAX REDUCTION: BUILDING ON PAST MEASURES

The most effective way to ensure that the recent regimentation of the nation's finances translates into sustainable improvements in Canadians' standard of living is to use the gains made to build Canada's economy. The government affirms that any initiatives undertaken within a balanced budget must be conducive to ensuring a strong competitive economy. Measures for the short term will have to remain relatively modest, and will have to be carefully chosen. A strong, competitive economy is a necessary foundation for a prosperous and healthy nation.

With the budget in balance, Canadians have a right — and we have a responsibility — to ensure that more money is left in their pockets. This is one key to raising the standard of living and increasing disposable incomes for all Canadian families.

The Honourable Paul Martin, The Economic and Fiscal Update, October 14, 1998.

One of the benefits of the new era in which the federal government's balanced budgets begin, is the promise of a reduction in levels of taxation. Many of the witnesses who came before the Committee share our belief that a reduction in tax rates would be of benefit to all Canadians. The critical questions to consider are how any reductions should be distributed, and to what degree.

Tax relief, though it may appear straightforward, actually presents the government with a wide range of possible policy options. Given these options, the government sets its priorities as follows. First, the government has provided targeted tax relief in all its budgets to those most in need, even with a deficit, as such action could not wait. This has included assistance for students, charitable donations, Canadians with disabilities and children. Second, as a small fiscal surplus began to emerge, the government provided general tax relief, but starting with low-and modest-income Canadians. Third, the government ensured that general relief will be broadened and deepened as fiscal resources emerge over time.

[T]he government has to reduce taxes. This is the main answer that we make to the second question put by the committee. We were asked what changes and what new strategic investments were required for the tax system to help the goverment carry out its priorities. Ms. Lachapelle has just pointed out the gap between the American and the Canadian tax systems, wich is considerable. We believe that it's time for the government to take action on this issue.

Now, it is time to focus on broader tax relief measures. Testimony heard by the Committee confirmed the belief that Canadians pay too much of their income in taxes. The Minister of Finance believes it. The Committee believes it. What we need to

ensure, however, is that tax relief is sustainable, so that we do not embark on a roller-coaster ride of tax cuts followed by tax increases whenever the budgetary position is threatened by financial turmoil and economic slowdown.

[W]e believe that Canadian taxpayers have made huge sacrifices in the past several years to get us to where we are today. That burden should be relieved.

Michael Murphy (Chairman of the Pre-Budget Task Force, Saint John Board of Trade

The second important consideration is to give ourselves the most efficient and effective tax system possible. It could be argued that our overall competitiveness is harmed by the tax system as it is configured. Because the future prosperity of our country depends on having a competitive economy, the Committee makes no excuses for placing economic efficiency high on our list of priorities.

In addition to tax reductions, a second option for putting more money into circulation is to reduce employment insurance premiums. It is well known that recent contributions to EI have exceeded EI payouts by about $6 billion per year.

Targeted Tax Relief

Last year, the Committee recommended a set of actions in its pre-budget consultations report with respect to tax measures. It was argued that, before reducing the overall tax burden, it would be more appropriate to reinvest in certain social programs and direct these investments toward those who need it most.

The government followed the Committee's advice in this regard. For example, the basic personal amount and the spousal and equivalent-to-spouse amounts were increased by $500 via a supplementary, non-refundable amount that limited the measure to low-income taxpayers. As a result of these measures, approximately 400,000 low-income individuals have been removed from the tax rolls while another 4.6 million taxpayers have received some tax relief (up to $85 for an individual and $170 for a family).

In addition, the 3% general surtax, a "temporary" tax introduced by the previous government in 1986, is eliminated in its entirety for individuals with an annual income up to $50,000 and partially reduced for those between $50,000 and about $65,000. About 13 million taxpayers will no longer pay the surtax while another 1 million will pay a reduced amount. In combination, these new measures will reduce significantly the tax burden of low- and

middle-income taxfilers. For example, a one-income family of four with $30,000 in annual income should see its federal tax burden reduced by almost one third.

The government also introduced tax relief targeted specifically at enhancing access to education and to supporting the concept of lifelong learning. For example, all students will now be able to deduct from income the interest payments on their student loans. The education credit is extended to part-time students, the childcare expense deduction is extended to part-time students and Canadians are able to withdraw money from their RRSPs to support learning endeavours.

The childcare expense deduction was increased by 40%, and federal spending on the Canada Child Tax Benefit was increased by an additional $850 million.

Also, in order to equalize the tax treatment between the self-employed and incorporated businesses, self-employed Canadians will be able to deduct health and dental insurance premiums from their business income.

It would cost $1.1 billion annually to reduce the 26% rate facing middle-income Canadians by 1 percentage point.

In addition to these measures regarding the personal income tax, employers will be given an employment insurance premium holiday, starting in 1999, to encourage the hiring of young people between the ages of 18 and 24 years.

The 1998 budget contained tax measures that would provide low- and middle-income Canadians with most of the approximately $7 billion in cumulative tax relief over the next three years. These measures are consistent with our own recommendations, and constitute a wise investment on the part of the federal government. We believe that the government's choices reflect favourably on the value of this pre-budget consultation process and the report of the Committee.

The state of the government's finances limited what the government could do last year. There is always a temptation to reduce taxes across the board, as suggested by some. For such an action to have any meaningful impact it would have had to be of such magnitude that it would jeopardize the fiscal gains achieved so far.

A $100 tax reduction for all taxpayers would cost about $1.5 billion annually. The Economic and Fiscal Update, October 14, 1998

Last year we said, "patience is a virtue." We then argued that by waiting a bit longer we would be able to offer sustainable tax cuts. The Committee believes Canadians have waited long enough. It is now time to plan for and deliver what this Committee has promoted in the past.

Now that the fiscal position of the federal government has become more sustainable, it is far more likely to be able to afford additional tax reductions. As was stated above, now that tax measures aimed at the low- and middle-income Canadians have been introduced, the Committee believes the government must begin to offer broad-based tax relief.

Canadians need as much individual tax relief as the government can afford. They have sacrificed mightily to get the nation's finances in order. They deserve a break. ... Cuts in personal income taxes will get more money to more people than any of the alternatives.

Thomas D'Aquino (President and CEO, Business Council on National Issues

It is only because the government acted responsibly in recent years, and because Canadians from coast to coast to coast have accepted the need to make substantial sacrifices that we should be in a position to implement tax reduction measures, which will benefit all Canadians.

Giving Canadians a Tax Break

It is time now for the federal government to review the tax burden facing all Canadians. For example, the Canadian Federation of Independent Business recently surveyed its members and discovered that their priorities have changed during the course of the year. Today, 80% of respondents feel that a reduction in the total tax burden should be a priority. But if the federal government is to cut taxes, where should the reductions be made?

Canada is currently the country with the highest tax rate. This huge burden considerably limits consumers' spending power, while encouraging tax evasion and undeclared work. We feel that the next federal budget should contain some concrete provisions to cut personal income tax, along the same lines as the inital measures set out in the previous budget...

Lise Bergeron (President, Sainte-Foy Regional Chamber of Commerce)

One way of addressing this issue is to ask where the tax system is least efficient, and concentrate efforts there. This is not an easy task. There is a great deal of inconclusive debate over the consequences on the economy of the various taxes, and this report is not the place to settle these matters. There is, however, a great deal that we can learn from the international evidence, as shown by the following table.

Overall, our tax regime is not out of line with other industrial countries (see Table 1 — Tax Revenues as a percentage of GDP-1996). Canada's taxes are significantly lower than in France

and Italy. The tax burden in Canada is similar to the one in the UK. In fact, when we compare the 1996 data with data for 1995, the gap between Canada and the UK is seen to be getting smaller. The differential between Canada and the United States is also declining. Canada is still in the middle rank of the G-7 nations.

Table 1
TAX REVENUES AS A PERCENTAGE OF GDP-1996

Country	Personal Income Tax	Payroll Taxes	Corporate Income Tax	Sales & Excise	Property	Other	Total
UNITED STATES	10.7	7	2.7	4.9	3.1	0.1	28.5
JAPAN	5.7	10.4	4.7	4.4	3.2	0	28.4
FRANCE	6.4	20.7	1.7	12.5	2.3	2.1	45.7
CANADA	13.9	6	3.3	9.1	3.8	0.7	36.8
GERMANY	9.4	15.5	1.4	10.6	1.1	0.1	38.1
ITALY	10.8	14.9	4	11.2	2.3	0	43.2
UNITED KINGDOM	9.3	6.2	3.8	12.7	3.8	0.2	36

Source: OECD

A 1-percentage-point reduction in the 3 tax rates of 17%, 26% and 29% would cost upwards of $3.7 billion annually

We cannot afford to have a tax system that is not competitive with our key economic partners.

Peter Rollason (Chair, Government Affairs Committee, Financial Executives Institute Canada)

The challenge we face is not necessarily with respect to our overall tax burden, or the burden in relation to other industrialized nations, whether G-7 or OECD nations. Canada's problem rests primarily with its tax burden in relation to the United States, our primary market for the sale of goods and services and our primary competitor for capital and labour. Not only is our tax burden higher than in the U.S., our reliance upon the personal income tax (PIT) is about 30% greater than it is south of the border.[12] This situation makes our tax regime uncompetitive.

Clearly ... our tax rates for individuals are not competitive on an international basis and we have to do something if we're going to ensure ourselves a stable supply and retention of highly qualified people within this country.

Barry W. Pickford (Chairman, Stentor Tax Committee, Vice-President, Taxation, Bell Canada — Stentor Telecom Policy Inc.)

12 Canada relies more heavily on the PIT than do all other G-7 nations, and the difference is substantial in many instances. It is more than double that of France and Japan, for example.

The majority of the manufacturing companies in our industry are subsidiaries of multinationals primarily based in the U.S. so their bosses are in the U.S. and quite often they take the better people from Canadian companies. Those are the ones who get promoted and get an offer to go south. Now I don't say that the move is necessarily made because of lower income tax but they don't come back because of that, I can tell you that.

Dean H. Wilson (President — Automotive Industries Association of Canada)

The disparity in the tax burden on Canadian workers and American workers at the personal income level has always put pressure on us to review and streamline our tax regime to make it more competitive. Many Canadian skilled workers (e.g. nurses, radiology technicians or occupational therapists) are in high demand in the United States, where they face a lower tax burden. In addition, some very highly paid, highly skilled professionals, such as physicians, pilots, software engineers, and computer experts are also being lured south. These professionals receive a substantial tax benefit by crossing the border, in addition to higher rates of pay.

A study published by Statistics Canada concludes that the so-called "brain drain" is, in fact, a net "brain gain" if one considers that Canada has more immigration of skilled workers from the rest of the world than losses to the United States.[13] It remains to be seen, however, how significant the brain gain theory turns out to be.

The C.D. Howe Institute recently published a study that concludes that the "brain drain" of talented Canadians to the United States is real and costly. For example, it found that the "number of managers, doctors, scientists and nurses emigrating from Canada to the United States in 1993-94 represent the equivalent of 18%, 14%, 14%, and 40%, respectively, of the 1991 Canadian graduating classes." During the 1982-96 period, the net loss to Canadian society was $6.6 billion. The authors concluded that pre-and after-tax returns that skilled emigrants can earn by moving to the United States were only one of the determinant factors. The authors do not conclude that relative high taxes are the dominant factor.

Clearly, the federal government's first priority should be to recognize the importance of scientific research and technology development as drivers of the New economy. Canada's research community represents our most significant asset in becoming more globally competitive, and in transferring knowledge and technology to the private sector, Canada's largest job provider.

Dr. Denis Gagnon (Senior Vice-President, Canada Foundation for Innovation)

There is also substantial anecdotal evidence that some of Canada's most talented and gifted individuals are leaving for the United States. Since 1993, the percentage of people working at IBM Canada Software Laboratory in Toronto who choose a U.S. employer when leaving the company has risen to approximately

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13 In his study entitled "Brain Drain or Brain Gain" (Statistics Canada, 1997), Ivan Fellegi agrees that there is a brain drain to the United States and to other countries. It is estimated that in 1995, about 11,000 knowledge workers left Canada, of which 5,600 left for the USA, including 1,600 health care professionals. But the overall evidence shows there is a net brain gain. In 1995, 34,300 knowledge workers came into the country from the rest of the world (42,600 in 1996).

25%. Nortel has argued that retaining highly skilled workers in Canada is challenging as it is difficult to compete for skilled workers, already in short supply, given the income tax burden differential. The Canadian Medical Association presented statistics, showing that in 1996, 522 doctors, 1,103 nurses and 352 other health workers, i.e. a total of 1,977 emigrants moved to the United States.

The Coalition for Biomedical & Health Research has surveyed Canadian universities with faculties of medicine on this issue. The data collected shows that, over the past 6 years, 5 faculties of medicine have lost 62 faculty/clinical positions, 232 research technicians, 39 post-doctoral/clinical fellows and 68 graduate students.

We ... have a concern that we need to do more effectively to develop through training courses and retain qualified people. Particularly qualified people in the high technology area, within Canada and not let them escape from here.

Barry W. Pickford (Chairman, Stentor Tax Committee, Vice-President, Taxation, Bell Canada — Stentor Telecom Policy Inc.)

ADDRESSING THE TAX GAP

One thing is certain, we are losing our best and brightest to the United States and this has had a detrimental impact on Canada's economic future. In a knowledge-based economy, the valuable resource resides with individuals. Losing our best people can only harm our long-term economic prospects and jeopardize our standard of living. Canada is facing increasing competition from capital and knowledge intensive countries such as the United States. Never before has skilled labour and knowledge been so important. In order to take advantage of future economic opportunities, not only does Canada have to attract capital investment but it must also compete to attract skilled workers from abroad and, above all, invest adequately in its own human capital.

Average family income tax in 1996 reached an all-time high of $11,597, up 4.2% from 1995. A combination of higher earnings and more taxpaying families was responsible for this increase. Income taxes have been trending upward since 1993 (by an average of $330 per year), mainly due to increased earnings, as employment recovered from the losses of the recession.

The Daily (Statistics Canada), June 22, 1998.

Achieving income tax rates comparable to those of our largest trading nation, the United States, would be very beneficail to the Canadian economy as that would allow its citizens and businesses to be more competitive. In today's open and highly competitive business environment countries are obliged to manage their attractiveness in order to attract and retain entrepreneurs, those primarily responsible for job creation. Many industrialized countries are reducing taxes and Canada cannot afford to be left behind.

Helmut Pastrick (Chief Economist, Credit Union Central of British Columbia)

Income taxes represented 20.5% of family total income in 1996, surpassing the previous peak of 19.8% reached in 1990. The percentage of income paid in taxes also reached an all-time high for the two top quintiles.

The Daily (Statistics Canada), June 22, 1998

A reduction in personal income taxes would contribute, among other things, to stemming the brain drain.[14] Even with lower taxes in Canada, high-skilled workers could still be lured to the U.S., where the world's most productive and innovative economy offers a higher standard of living for that segment of the population and where the best research environment is found. It would help in stemming the flow, nevertheless.

The time has come for our tax regime to be more competitive and adjust our tax system in relation to that of the United States. Globalization is no longer limited to trading goods and services, it also means more labour and capital mobility. Canadian workers have more international work opportunities than ever before. Human capital held by Canadians is almost as mobile as their financial capital. Our brightest citizens can go wherever the working conditions are best and the financial reward the highest. The United States offers precisely these conditions.

Thus the government must address the tax gap that presently prevails between our two countries. It must also recognize that high taxes can only be detrimental to our economy in the long run.

Canadian workers face very high combined marginal tax rates at a modest income level when compared to their American counterparts. The contrast to after-tax earning opportunities in the U.S. is striking. For 1998, a Canadian taxpayer will face a combined federal-provincial marginal tax rate ranging between 45.4% and 53.3% at a salary and interest income level of approximately

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14 The decision to move to the United States is influenced by many variables on which the government has little or no control, such as weather, geography, cost of living and quality of life. Important variables influenced by policy makers will also play a role when deciding to move to the United States, such as the existence of a vigorous and stimulating pool of knowledge (for example: Silicon Valley type of business concentration, presence of laboratories or research hospitals or important universities). This pool of knowledge depends on public spending (such as the three granting councils in Canada, R&D tax incentives) and private R&D expenditures (the Biocherma, Nortel, Newbridge, Corel and JetForms of this world...). The final two main elements in the decision-making process of an individual to cross the border is the overall compensation and the tax burden. The compensation of highly skilled workers is dictated by market conditions. Real income has been rising in the United States because of higher productivity. If one applies the exchange rate, the compensation discrepancy between Canada and the United States is even bigger. Combined federal/provincial personal income taxes have a significant impact on the after-tax disposable income of Canadians.

$63,400.[15] In 1996 an American worker faced a marginal rate of 45.26% on an income level of $263,750 American, assuming a state income tax rate of 5%. This ignores the effect of capital gains taxes, which in Canada are double those in the United States. In Canada, more than 53.2% of personal income taxes collected by the federal government is paid by taxpayers with income in excess of $50,000, even though they represent only 11.7% of taxfilers. Nor is it surprising that similar American workers, such as business executives, demand large bonuses to come to Canada in order to compensate for the higher tax burden.

The statistical picture painted by the accompanying table is consistent with that painted by the testimony and other evidence received by the Committee. All of this suggests that the personal income tax system, and not EI premiums, should be the primary focus of the federal government's tax reduction measures.

[A] big point for us is the need to address the problem that our income tax levels are too high. In our industry, we have several member companies who are in effect the headquarters for operations in both Canada and the U.S. It's perfectly logical for those companies to look, from time to time, at bringing a manager from the U.S. to headquarters to assume some important role here, but it's very difficult to do that when the income tax rates are so high that the person would in effect have a substantial decline in their standard of living by coming here.

Jean Van Loon (President, Canadian Steel Producers' Association, CSPA)

Canada has the most progressive personal income tax system amongst G-7 countries. This progressivity has increased substantially in the past two decades, in sharp contrast to the other G-7 countries that have tended to flatten their tax systems over the same period.

These high-marginal tax rates produce a wide range of negative incentives that can have significant adverse effects on our economy. By reducing productivity, these high-marginal tax rates reduce our standard of living.

It is not because high-marginal taxes reduce household spending power that they generate adverse consequences. Rather, it is due to the fact that high-marginal tax rates reduce savings and work effort. These effects directly reduce the rate of economic growth and hence limit growth in our standard of living.

Put another way, reducing marginal tax rates is an initiative that would be consistent with the criteria of the Productivity Covenant as discussed earlier in this chapter.

As a result, we conclude that the time has arrived to review the tax burden imposed on all Canadians. The Committee recommends that the next budget introduce personal income tax

15 The marginal tax rate for BC residents with salary income in excess of $79,500 reaches 54.2%.

reductions for all Canadians. Furthermore, the Committee recommends that the government commit itself to future tax reductions, by presenting a 3-year tax reduction plan.

In order to make our tax regime more competitive with the U.S. tax system, one could reduce our marginal tax rates and/or the income levels at which they apply. For example, the middle-marginal tax rate could be cut from 26% to 23%, as originally announced in the 1987 tax reform package. If implemented all at once in 1999, this option would cost the federal government $3.3 billion. If this option is too expensive, the government could spread the reduction over a 3-year period, announcing a timetable for such cuts in the next budget.

Another option is to increase the income level at which the top-marginal tax rate would take effect. Increasing the income level at which the 5% surtax takes effect, to $23,092 from $12,500, would cost the federal government $280 million. Moving the top taxable income threshold to $100,000 from $59,180 would cost the federal government almost $860 million. To move that level to $250,000 would cost the government $1.4 billion. If the government both increased the income threshold, as proposed in the last two scenarios, and also reduced the middle-marginal tax rate from 26% to 23%, this would cost the government substantially more, respectively $5 billion and $6.1 billion.

The Committee recommended last year that the government gradually remove the temporary surtaxes introduced by the previous government. The Committee still believes this to be the best option for Canadians looking for wider-based tax relief. The marginal tax rates, including the lowest one, are higher than they were originally designed to be. This is why, as noted previously, actions in this regard were taken in the 1998 budget.

Reducing by 1 percentage point the 3% general surtax costs $350 million.

The 1998 budget eliminated the 3% general surtax in its entirety for individuals with income up to $50,000 and partially for those between $50,000 and about $65,000. It is now time to finish the job and remove the surtax completely.

The Committee recommends that the temporary 3% surtax be completely eliminated in the next budget.

The 5% surtax on high-income earners is also a measure that was introduced as a temporary deficit reduction measure. This too should be eliminated, as it constituted a distortion in the tax system as it was designed. Its total elimination would cost the government about $665 million per year. The Committee believes it, too, has served its purpose and should be eliminated on a gradual basis.

Reducing by 1 percentage point the 5% surtax costs $130 million.

The Committee recommends that the government announce a timetable for the elimination of the 5% surtax, starting with a 1-percentage-point decrease in 1999.

As noted above, another measure in last year's budget was the $500 increase in the basic personal and spousal amounts. That increase was limited, however, with the full benefit being enjoyed only by individuals with incomes below $7,500 and single earner married couples with incomes below $13,500.

Increasing the basic personal amount by $100 costs $250 million. Increasing the married / equivalent to married amount by $100 costs $40 million.

The Committee believes that this measure should be extended to all Canadian taxpayers, not just those with low incomes. Raising the basic personal amount by $700 would cost the government about $1.7 billion per year. A similar increase in the spousal amount would cost the federal government $295 million. As lower income taxpayers already enjoy this benefit, the total cost to the government would be just over $1.8 billion per year.

Raising the basic personal amount by $700 will reduce taxes payable by as much as $180, assuming a 50% provincial tax rate, for a single taxpayer. A married taxpayer, or a single-parent taxpayer, can receive as much as a $360 tax cut.

The Committee recommends that the 1998 budget measures, that increased the basic personal amount and spousal amount by $500 for lower-income taxpayers be increased by a further $200, bringing to $700 the amount of additional income that can be earned tax free.

The Committee further recommends that this $700 increase in the basic personal and spousal amount be available to all Canadian taxpayers.

Employment Insurance

The Employment Insurance Program is one of the largest programs operated by the federal government. Employment Insurance premiums are the only federal payroll levy. When compared to other countries, the overall payroll tax burden (EI premiums plus CPP/QPP premiums) relative to the GDP in Canada is small, only 6.0%. (See Table 1). In fact, Canada had the lowest level of payroll taxes relative to the GDP of all G-7 countries in 1996.

The government has already reduced the burden of EI premiums substantially. They have been reduced from $2.90 to $2.70 per $100 of insurable earnings for 1998.

The EI premium holiday for all firms for the hiring of young Canadians will provide a total of $200 million relief over the years 1999 and 2000.

For 1998, the 20-cent reduction combined with the reduction in maximum insurable earnings and the New Hires Program, has reduced the EI premiums by $2.6 billion. These measures meant reduced EI contributions for 14 million Canadian workers and are part of a long series of gradual EI premium reductions that began in 1993 when the premiums were set at $3.07 as opposed to $3.30 as required by the statute. In total, this government has already cut EI premiums by about $5 billion. The Committee agrees that more must be done, but in a way that is prudent and does not jeopardize the government's budgetary balance.

Many witnesses forcefully argued in favour of substantially reducing EI premiums. They argued that the current surplus in the EI account is more than sufficient to cover any future liability during the next recession without leading to higher premiums. They argued that the "surplus" in the EI account exceeds the ideal amount of reserve estimated by the program's chief actuary. As a result, they called for a $0.60 reduction to the actuarial break-even rate of $2.10. This would cost $4.2 billion. Some went further and recommended a $0.90 reduction. To go to $1.80 would reduce government revenues by more than $6.3 billion. This would be highly imprudent, in our view.

The CFIB strongly recommends that the federal government publicly state and deliver a three-year plan to bring the EI premium into balance with the costs of running the EI Program.

Reducing EI premiums would not benefit all Canadians. First, it would benefit businesses more than workers. A $0.60 reduction would mean a saving of $2.6 billion for employers and only $1.76 billion for workers. Second, reducing EI premiums would do nothing for elderly citizens, students or self-employed individuals. The Committee believes that broad-based personal income tax cuts would be beneficial to more Canadians.

As was mentioned before, payroll taxes in Canada are low and already competitive when compared to other G-7 countries. Canada has a competitive problem at the personal tax level. Canada relies more on personal income tax revenues than any other G-7 country.

To substantially reduce EI premiums would limit our ability to further reduce the debt-to-GDP ratio. It would impede government flexibility — it is generally accepted that it is increasing premium rates, not the level of the rate that leads to higher unemployment. As stability is so important, any downturn in the economy would force the government to make unwanted cuts to spending programs or increase other taxes so as to keep from going into a deficit once again. In the current volatile environment, a return to deficit financing is not a viable option.

Several witnesses before the Committee argued that the surplus in the EI account should not be used to reduce premiums but to enhance benefits. With about 40% of the unemployed receiving benefits, as opposed to the two-thirds to four-fifths who received benefits in earlier years, it was claimed that those who are paying into the system are not receiving the benefits to which they are entitled.

The Committee feels that much misunderstanding exists with respect to this phenomenon. Many of the unemployed receive no benefits, not because of the EI reforms, but because they do not meet the criteria that have always existed — in other words, they receive no benefits because the system was never designed to cover them. This includes the almost half million unemployed who did not work in the previous 12 months, the self-employed and those who quit work to return to school. It also includes the 100,000 who quit their job without "just cause."

The Committee believes that, after examining the evidence, the EI system is accomplishing what it was meant to accomplish and hence we see no need to consider an increase in benefits at this time. The EI reforms were designed primarily as a way to facilitate the improved functioning of the labour market. Simply increasing coverage to more of the unemployed would negate these benefits.

The EI Account and EI Premium Rates

The surplus in the notional EI account will likely be $19.58 billion at the end of this calendar year. Not so long ago, in 1993 in fact, the cumulative EI account was in deficit in the amount of $5.9

billion. The notional EI Account has been part of the Public Accounts since 1986, as recommended by the Auditor General. This means that when it is in deficit, the government covers that deficit. There has been a deficit in this account in 10 of the last 17 years. In years of surplus, the government's fiscal position improves as a result. This approach has proven to be a benefit to Canadians as a whole as well as those who rely upon and contribute to the EI program.

A 10-cent reduction in EI premiums costs the federal government $700 million per year.

Premiums must be set at levels that ensure there will be enough revenue to pay for authorized expenditures, and to maintain stable premium rate levels. To assess the recommended premium level, forecasters use different hypothetical unemployment rates. The *Employment Insurance Act* does not set premium rates or the balance in the account. The Chief Actuary has estimated that a reserve of between $10 billion and $15 billion should be sufficient to cover the cost and to ensure that payroll taxes will not have to increase during recessionary periods. This estimate is based on the simulation of costs for the current program over the next 15 years, assuming a recurrence of recessions similar to the last two.

A 15-cent reduction in EI premiums costs the federal government $1.05 billion per year.

There might be a need for more caution, however. It has been observed that the unemployment rate has tended to ratchet upwards over the last 50 years. Global economic events also suggest the need for additional caution.

A 20-cent reduction in EI premiums costs the federal government $1.4 billion per year.

In the United States, the state programs are asked to maintain reserves worth between 100% and 150% of recession level costs. In Canada, the reserves are set to represent between 110% and 150% of the regular benefit forecast. Thus the accumulated surplus is not as excessively prudent as some would have us believe.

The Committee heard from a number of witnesses, such as the Charlottetown Chamber of Commerce, the Business Council on National Issues and the Toronto Board of Trade, that EI premium reductions had to be approached from a gradual perspective. Many businesses are willing to wait a bit longer before attaining the break-even premium rate. Meanwhile many Canadians have been long awaiting significant broad-based personal income tax reductions. The Canadian Federation of Independent Business

(CFIB) supports such a gradual approach as well. Its members are more concerned with the total tax burden they face than with individual components of that tax burden. In the spring of this year, one in four members said there should be more focus on tax cuts. Today, 80% of members argue that tax reductions should be the top priority. Next on the list of priorities are EI premiums and government debt.

CFIB members are concerned with EI premiums because, when combined with rising CPP/QPP premiums, the payroll tax burden on employers will have more than doubled in the past two decades.

The CFIB strongly recommends that the federal government publicly state and deliver a three-year plan to bring the EI premium into balance with the costs of running the EI program.

To satisfy the CFIB's request would require a 60-cent reduction in premiums over three years, to $2.10 per $100 of insurable earnings. This is not entirely inconsistent with the past actions of the government or the recommendations of this Committee. We continue to believe that premiums should be reduced, in such a way that does not threaten the fiscal balance of the government. Once fully implemented, the CFIB recommendation would reduce federal EI premium revenue by $4.2 billion per year.

Hence the Committee recommends that the government reduce EI premiums by a minimum of 10 cents per $100 of insurable earnings.

INDEXATION REVISITED

The measures proposed so far would benefit mainly middle-income earners. Despite the targeted tax measures introduced in the 1998 budget, a balanced approach is still needed to make sure all Canadians benefit in this new era of budgetary surplus.

The total impact of restoring indexation of tax parameters, based on an annual inflation rate of 1.5% would be $840 million in the first year and $1.7 billion in the second year

The Committee argued against the reintroduction of full indexation last year because of the potential effect it could have on government revenues — the return to full indexation takes away a

certain degree of government flexibility, and could cost the government substantial amounts in future years.[16] Being cautious, the Committee recommended, instead, the restoration of full indexation only when the fiscal situation would permit. Now that the budgetary surplus is sustainable, the Committee feels the government should carefully review the indexation issue.

Income tax brackets that were not adjusted for inflation also contributed to higher taxes. These increases were not as great as those during the recovery that followed the recession of the early 1980s, when average taxes rose and average $504 per year between 1984 and 1990.

The Daily (Statistics Canada), June 22, 1998.

Introduced in 1986, the "CPI minus 3 rule" is still in place. It is now well known that a tax system which is not indexed against inflation has three perverse effects.

First, it increases the tax base, since taxable income grows faster than total income because exemptions and credits decline in red value over time. Low-income Canadians become subject to income tax as a result of the erosion of the real value of their credits. Second, as income grows with inflation, a larger proportion of income is taxed at higher rates; thus the average rate of tax increases. And third, because of the "bracket creep" effect, the marginal tax rate increases as the thresholds diminish in real terms. A tax system not indexed to inflation is regressive.

The OECD recommended full inflation indexation in a report published last year.[17] According to this study, partial indexation has pushed 1.4 million low-income individuals onto the tax rolls over the 10-year period ending in 1998. Over 1.9 million individuals have been pushed from the lowest marginal tax bracket to the middle bracket,[18] while 600,000 were pushed from the middle to the highest tax bracket.

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16 The Committee recommended instead increasing the basic personal amount, the spousal amount and the equivalent-to-spousal amount. The government responded positively to this recommendation in the 1998 budget when it increased all these amounts by $500.

17 OECD, *OECD Economic Survey 1996-97*, Canada, 1997.

18 This has a particularly dramatic effect, as the middle tax rate is nine percentage points higher than the low rate.

This lack of full indexation can explain why Canada relies on personal income taxes more than other G-7 countries (See Table 1). Restoring full indexation is not so much a tax reduction as it is an end to automatic tax increases that now occur solely on account of inflation.

With 1.5% inflation per year, full indexation of the tax / transfers system would be $840 million in year 1, $1.7 billion in year 2, $2.6 billion in year 3 and $3.4 billion in year 4.

The Committee recommends that the government reintroduce indexation when the fiscal situation permits, in the meantime measures should be taken to offset the impact of de-indexation.

Enhancing Rates of Return: The 20% Foreign Property Rule

Canada has, since 1994, had a 20% Foreign Property Rule limiting the amount of foreign investments that may be held in tax-assisted pension and retirement savings plans. It was increased gradually from the 10% limit that applied before 1990. A number of witnesses argued that this restrictive 20% limit is detrimental because it limits the potential return that could be earned in a more diversified portfolio and increases the riskiness of a retirement portfolio.

Even though the Canadian equities market accounts for less than 2.5% of global stock market capitalization, 80% of Canadians' tax-assisted retirement savings must be invested here. This severely limits our ability to diversify globally and across economic sectors — it must be remembered that Canada's economy is still relatively resource-oriented. It is precisely because of the relatively small size of the Canadian capital market that an appropriate degree of diversification requires a relatively large foreign content. Sophisticated investors can use derivatives to effectively increase their share of exposure to foreign assets beyond 20%, without violating the income tax regulation. Some mutual funds are now also offering this ability.

The Committee believes that limiting diversification increases risk and can reduce the overall return. The Investment Funds Institute of Canada commissioned a study on the impact of the Foreign Property Rule on investor returns. It found that a 30% foreign content limit over the last 25 years would have allowed Canadian investors to earn up to 1.6% more per year on their retirement savings portfolios. The cumulative impact of this is

Forcing Canadians to invest 80% of their retirement savings in 3% of the world's capital markets is unwise and imprudent. — (Retirement Income Coalition)

enormous; for an average investor it means the loss of $32,000 in capital at retirement. Thus the existing rule makes some Canadian seniors poorer than they would otherwise be.

As the Canadian population ages, we are going to become bigger savers than we are now and I can imagine a situation where we will run persistent current account surpluses and we will be net lenders to the rest of the world and in those circumstances, I think you will want to allow Canadians to have a wider range of investment opportunities.

Gordon Thiessen, Governor, Bank of Canada, November 17, 1998

The 20% rule only affects savings in tax-assisted retirement vehicles such as RRSPs, RPPs, and the CPP investment fund. Thus it penalizes the returns of those whose savings are mainly in these instruments. Taxpayers who hold most of their savings outside of tax-assisted savings plans are less affected by the 20% rule. They can achieve maximum diversification to protect against risk and enhance their rates of return.

The Committee recommends that the 20% Foreign Property Rule be increased in 2% increments to 30% over a five-year period. This diversification will allow Canadians to achieve higher returns on their retirement savings and reduce their exposure to risk, which will benefit all Canadians when they retire.

It's to the Finance Minister's credit that he resisted the strong financial lobby to raise if not remove the 20% ceiling on investment abroad of tax-subsidized pension funds ... We have long advocated gradually reducing that ceiling.

Bruce Campbell, Executive Director, Canadian Centre for Policy Alternatives

Some witnesses before the Committee argued against raising the 20% limit on the grounds that the turmoil in global markets would put at risk the savings of Canadians. They also contended that such a move would deprive the Canadian economy of much needed capital.

To those who believe that investment in foreign property would have an adverse effect on the Canadian economy and its capital markets, we note that the increase in the limit from 10% to 20% had no deleterious effect, according to the Conference Board of Canada. As well, three-quarters of the Canadian investment pool is not subject to this rule because it is outside of tax-assisted investments. Increasing the foreign property limit to 30% would affect only 2.4% of the total domestic investment pool. Even if all of it were invested in foreign property, the effect on the Canadian capital market would be minimal.

To those who believe that increased exposure to foreign capital markets would put Canadians at financial risk, the Committee cites the evidence put forward by many groups, including the Retirement Income Coalition, that increased diversification would not only have increased returns, it would have reduced risks. The 20% limit that protected Canadians from risky ventures in emerging markets also "protected" us from blue-chip investment in the United States.

Indeed, over a 15-year period, there are few major countries that would have provided Canadians with as low a return as our own market according to the Retirement Income Coalition.

The Committee supports the arguments by those who believe the limit should be raised and therefore we repeat last year's recommendation.

CHAPTER 5: PUTTING PEOPLE FIRST: ENHANCING THE HEALTH OF ALL CANADIANS

Over the last few years, the Canadian system of social programs has experienced major restructuring at the federal, provincial and municipal levels. Its role has been seriously re-evaluated and many social programs in every jurisdiction across the country have been redesigned, and in some cases terminated.

Putting more money into the system, even if it were available, is not the answer. International comparisons indicate that the total level of financial support to Canadian health care as a percentage of gross national product is among the most expensive in the world.

Gretchen Van Riesen (Director, Pensions and Benefits Policy, Canadian Imperial Bank of Commerce: Member, Employer Committee on Health Care — Ontario)

Part of this has been due to the need for governments to restore order to their finances. For example, given the large budget deficits the federal government has been faced with for the past decade, and the size of federal transfers to the provinces and territories, a balanced approach to deficit reduction required a reduction in program spending, including transfers.

Major transfers to the provinces were not reduced by as much as were direct program spending.

When the government originally made eliminating the deficit its first priority, it was decided that the burden of spending restraint measures would be shared by all — from small businesses to large banks, from students and the unemployed to skilled workers, from the Armed Forces, to public servants and individual parliamentarians. Every Canadian was asked to contribute for the common good.

Health costs have risen disproportionately to the marginal improvement in health status. ...We know that spending more money on health care does not necessarily lead to better health. The quest to balance budgets and reduce indebtedness at all levels of government has accelerated the speed of change in the health sector.

Canada Health Action: Building on the Legacy — Report of the National Forum on Health.

Thus the federal government curtailed the growth of transfers for health care, social assistance and post-secondary education. It reformed its system of transfers, creating one block grant known as the Canada Health and Social Transfer (CHST), offering more flexibility to the provinces and territories in the establishment of their own priorities. A much-needed review of the role of the different levels of government in social policy was initiated as a result. But several provinces had already initiated health care reforms.

In response to the questions your Committee is asking in your consultation process regarding the NEW fiscal dividend, we strongly urge the government not to spend more money on health care services but rather to find ways to encourage and promote effective pilots and ultimately implementation of an integrated health care delivery system.

Gretchen Van Riesen (Director, Pensions and Benefits Policy, Canadian Imperial Bank of Commerce: Member, Employer Committee on Health Care — Ontario)

Each province and territory could decide how to spend their resources, based on their own priorities. They all reviewed the importance of the services provided to their constituencies and

sought to introduce more efficient delivery mechanisms. Among the methods used for fiscal restraint were rationalization of the size of public services and reductions in program spending.

[A] strong federal presence in our health care system is necessary to ensure access to comparable health services for all Canadians regardless of where they live.

Sharon Sholzberg-Grey (President and CEO, Canadian Healthcare Association)

By reducing the health services they provided, the provinces challenged one of Canada's most cherished national symbols. Canadians believe in a health care system that treats all individuals equally, with compassion and respect. They also believe in a regime that provides quality health care, whenever and wherever needed.

In this context, the provinces embarked on a series of reforms designed to provide the same level of health care with limited financial resources. Not only was the fiscal environment restrictive throughout the period of reform, but other developments gave provincial governments cause for concern. The costs of new technology and medication were rising rapidly, coupled with an aging population that is growing in size. The provinces acted to meet the challenges that faced them.

The underlying problem is thoughtless, mechanical tinkering with the system in nearly every province.

David McKinnon, Executive Director of the Ontario Hospitals Association.

Reform of the health care system was long overdue. In some aspects, the system was characterized by a lack of accountability and a considerable amount of inefficiencies, unnecessary procedures, lack of proper resource management, and ineffective treatment. Services were in many instances failing to respond to changes in health care delivery that have, for example, led to shortened hospital stays.

Rationalization meant difficult but necessary choices such as, reviewing the list of medical interventions considered essential, reducing the number of beds, and in some instances, closing hospitals in areas where their continued operation could not be justified. Shorter hospital stays and the increasing number of outpatients have changed the demand for these physical facilities.

The crisis is rooted more in faulty planning than in demographics, finance or technology. The good NEWs is that the management crisis can be fixed.

David McKinnon, Executive Director of the Ontario Hospitals Association.

Reforming Canada's health care system has been a difficult process and has created anxiety among Canadians. People are concerned about the future of the system. They sense that waiting times for medical services are increasing, and many Canadians question whether or not their health care system will be there for them when they need it.

The difficulty governments face is how to address the concerns of Canadians. While some will argue that the health care system is not functioning as well as it once did, there is little agreement on where the limited resources should be directed.

Canada ranks fourth among the G-7 nations for health-to-GDP ratios, behind the U.S., Germany and France. — Canadian Institute for Health Information

There are many innovative measures which have merit. For example, as the percentage of elderly Canadians increases, it makes sense to increase the amount of resources invested in home care. Ideally, by helping people with major or minor limitations to live in a familiar home environment, home care can help delay the need for long-term care or acute care. A well-established home care system can also liberate limited acute care beds in hospitals for patients in greatest need.

Similarly, as advances continue to be made in pharmaceuticals, illnesses which formerly required care in hospitals can now be treated more effectively outside. Examples include modern oral antibiotics, which are more powerful than the intravenous antibiotics used in the past. Anti-psychotic medication enables certain individuals suffering from mental illness to live rewarding lives in society instead of being institutionalized. And people suffering from deep-vein thrombosis can now be treated with blood thinners at home, instead of requiring hospital care.

In 1998, the ratio of health spending to GDP is expected to rise to 9.1 percent — the first time this ratio has increased since 1993. — Canadian Institute for Health Information.

Unfortunately, while medication used in hospitals is covered by our health care system, in most cases that used in the home is not. This would seem to place an unfair burden on the patient, and act as an incentive for certain people — such as those who do not have the resources to pay for their own medication — to seek hospital care.

Spending on Canada's health care system is expected to reach $80 billion in 1998, an increase of 9.8 percent from the $77.1 billion spent in 1997.

Canadian Institute for Health Information

In some instances, health care reform can be seen as an attempt to address these newly emerging gaps between how care is provided and how it is financed. But the proponents of such new approaches have a responsibility to clearly demonstrate that the new methods will ensure quality patient care. Otherwise, the end result may be to place an even greater burden on the traditional health care system.

If governments and the health care community are to make the most efficient and effective use of limited resources, there is clearly a need for reliable and accurate information on which to base policy decisions.

During the current wave of health restructuring, a clear need for better information has become evident, not only to assist in making decisions about allocation of scarce resources, but also to monitor the impact of decisions already taken.

Decentralizing health services at the regional level makes this information all the more important. It is in the interest of all Canadians that data be standardized and pooled at the national level.

Therefore, the first step recommended by this Committee in strengthening the health care system, is to clearly identify those areas where the system is not functioning effectively and efficiently.

Canada's the only country in the world that does not have a health policy goals document around which, even if you missed the goals, you can be held accountable by how much you missed and then what were the reasons behind not meeting your targets. It seems to be the idea of a health report card warrants more attention.

William Tholl (Executive Director, The Heart and Stroke Foundation of Canada)

In this regard, as part of its *Access to Quality Health Care Project*, the Canadian Medical Association (CMA) has proposed principles that are aimed at enhancing the health of every Canadian. When in place, these guiding principles should guarantee timely access based on patient needs. Hence, all Canadians, whatever their culture, age, ethnic origin, socio-economic status or medical condition will have access to the best clinical care at the right time and the right place. This quality of health services should reflect an efficient and optimal use of resources. To achieve this the CMA is proposing an evaluation system to monitor and measure the quality of care.

The Committee recommends that the federal government invest (in collaboration with the Canadian Medical Association, the provincial governments and other stakeholders) in the development of a clinically-based measurement system to monitor and evaluate access to quality health care and other performance indicators of the health care system. Based on these observations and new evidence, the federal and provincial governments would be able to assess precisely the financial needs of our health care

system. The *Access to Quality Health Care Project* should guarantee Canadians that they will have access to a health care system reflecting their values and their expectations.

Canadians should be proud of the health care system they have built, and continue to build each day. That system has experienced difficult but necessary changes over the last few years. Some benefits and new initiatives are already apparent.

Individual Canadians and all provinces believe more should be done. Many argue that the health care system is threatened by cuts in funding. They are concerned that the cuts have gone too far and as a result, the system may no longer be adequately funded. They argue that the health care system should be the number one priority of the provincial and federal governments.

The second step recommended by the Committee to strengthen the health care system is to review transfers to provinces. It is because the federal government took decisive and consistent action to eliminate the deficit that it is able to reinvest in our health care system. The federal government is committed to the *Canada Health Act*. Under Bill C-28, enacted earlier this year, the provinces were provided with a cash floor of $12.5 billion, up from the $11 billion floor previously in place (as well as the large and growing tax point transfer). As a result of this Bill, provinces will receive approximately $7 billion of extra cash under the CHST from 1997-98 to 2002-2003. This increase in cash transfers is a tangible example of the federal government's ongoing and active involvement in the system of health insurance and social programs.

However, witnesses generally felt that more must be done. Any budgetary surplus should be dedicated to increasing health care spending. It was said by many that the federal government should use its budgetary surplus to restore all, or at least some, of the cuts made to the CHST.

It is quite apparent, despite the efficiency gains, that the health care system has had difficulty in handling drastic provincial expenditure reductions and significant federal cuts in transfers. When we compare projected total entitlements (i.e. cash transfers and tax points) for 1999-2000 to the ones that prevailed in 1995-96,

We would advocate putting [the fiscal dividend] ... into health care because we feel that health care has suffered the most due to the focus of dealing with fiscal deficits by all levels of government over the last number of years. There is no question in almost every Canadian's mind that health care has suffered significantly as a result of the focus on dealing with the fiscal deficit.

Rob Hilliard (President, Manitoba Federation of Labour)

Our latest statistics show that the number of nurses working part-time and in casual jobs has increased from 3.1% in 1992 to 17.3% in 1997. That's almost half of our profession ... One nurse in Ottawa explained to me recently that she works in three different emergency rooms, two of them attached to teaching hospitals, one a community emergency.

Mary Ellen Jeans (Executive Director, Canadian Nurses Association)

The restructuring and reform process, while absolutely necessary, has, in some cases, missed the mark. Modernizing a $74 billion enterprise is anything but simple. It is not likely to be completed with uniform success. There have been some mistakes and frustrations.

Allan Rock, Minister of Health, September 7, 1998.

When you consider the demographics of the Canadian population and the fact that we are an aging population, health care costs are bound to rise. It doesn't matter what you do. With an aging population, we are going to see health care costs rising.

The Honourable Judith Erola (President, Pharmaceutical Manufacturers Association of Canada)

CHST entitlements will have decreased by $3.108 billion. When large fiscal constraints are imposed and when decisions are taken rapidly, there is no guarantee that the ineffective services will be the first ones to go. Instead of making reforms that were well planned, pilot tested, monitored and evaluated, many provinces simply made across-the-board spending cuts. This sort of policy initiative eliminates the good and the useful as well as the outdated and the inefficient.

In 1997, the federal government transferred more than $12 billion to the provinces in tax points.

The Committee is concerned that the quality of health services could be undermined if funding is not further increased. Previously, we stressed the importance of an accurate and scientific assessment of the health care system. The Committee feels at this point that we should err on the side of caution and inject additional funds into health care. This additional funding is also vital in sending a signal to Canadians that the federal government is committed to the continued success of our system of Medicare. The intensity of the public debate about health care and the role of the federal government both suggest to the Committee that additional funds are needed now. The Committee wishes to express our gratitude to the witnesses who cared and documented the challenges faced by the health care system. In particular, we are impressed by the way in which many groups were able to coordinate their efforts within the Health Action Lobby and present a united front to the Committee.

The increase we are proposing at this time is not as large as those recommended by some witnesses. As mentioned above, the Committee believes that substantial increases should be justified by an efficiency assessment of health care spending.

The Committee recommendation to raise by $1 billion the cash floor, will provide an extra $4 billion cash transfers by 2002-2003.

As Canadians enter a new era of budget surpluses, the time has come to restore more of the funds removed in recent cutbacks. The federal government should reinvest additional funds to address some urgent needs as we go through this important transition period. The new funds could alleviate some of the short-term difficulties the health care regime is facing. Investing part of the surplus into improvements in Medicare would send a signal that the federal government is still strongly committed to the Medicare system.

The Committee recommends that the federal government strengthen its involvement in the health care system by further increasing the cash floor by $1 billion starting in 1999-2000. If the cash floor is raised by $1 billion, the 1999-2000 total entitlements will increase by 6.3% as a result when compared to 1998-99 ($27.6 billion compared to $25.97 billion). Provinces will have received another $4 billion extra by 2002-03. Total CHST entitlement will reach $29.5 billion in 2002-2003.

For example, if enacted, Ontario will receive an extra $1.5 billion over the next 4 years; Quebec: $1 billion; British Columbia: $528 million; and Alberta: $360 million. This measure will further strengthen the commitment made in the *Red Book* concerning cash transfers. Meanwhile tax transfers will continue to grow by almost $600 million a year.

The Committee's recommendation to raise by $1 billion the cash floor, will provide an extra $4 billion cash transfers by 2002-2003.

Under the current formula, CHST transfers do not provide an equal per capita entitlement in each province. Extra money injected into the CHST would make it easier to achieve more rapid progress towards an equal per capita distribution of the transfer across the country. This "fair share" approach to allocating CHST among provinces should take both the cash and the tax point elements of the CHST into account.

The value of tax points transferred to the provinces is growing by approximately $600 million per year.

Table 2

CHST Transfers
(After Committee recommendations)

YEAR	TAX POINTS	CASH	TOTAL
ending March 31	(in million dollars)		
1996	11,412	18,463	29,875
1997	12,068	14,832	26,900
1998	12,816	12,500	25,316
1999	13,474	12,500	25,974
2000	14,127	13,500	27,627
2001	14,759	13,500	28,259
2002	15,394	13,500	28,894
2003	15,978	13,500	29,478

It is important to remember that the CHST helps provinces carry out their responsibilities with respect to health care, post-secondary education and social assistance. As long as the provinces respect the criteria of the *Canada Health Act* (universality, accessibility, comprehensiveness, portability and public administration) and do not impose minimum residency requirements on social assistance applicants, the provinces are entitled to the financial resources. They can then decide to allocate the money in ways they consider appropriate.

Canada continues to rank near the bottom of the list when compared to its major OECD competitors, having a ratio of gross expenditures on R&D to GDP of a mere 1.6 percent, compared, for example, to 2.6 percent in the U.S. and 3.0 percent in Sweden.

Provincial governments have initiated reforms to social assistance and post-secondary education. After listening to the numerous witnesses who testified on this issue, the Committee believes that, at the present time, new CHST money should be directed to the improvement of the health care system. For this reason, we believe that there is no need to restore the full amount of CHST entitlements cut in the 1995 budget.

I do not believe that the needs and will of the people of Alberta differ drastically from the will, needs, hopes and aspirations of their fellow Canadians. Albertans want to see investment in our people, our health care and our education.

Heather Smith (President, United Nurses of Alberta)

There is no guarantee that the provinces will inject any extra funds into the health care system. However, given that the provinces have argued for so long that the health care system is short of funds, and given the commitment made by the premiers to

use any increase to the CHST for health care, it is believed that they will earmark the additional $1 billion in annual cash transfers to their respective health care regimes. This money could be used to improve service delivery, invest in new technology and to reduce waiting lists.

MEDICAL RESEARCH: KEY TO STRENGTHENING HEALTH CARE

The third step recommended by the Committee to strengthen the quality of health care is the funding of new medical research initiatives. The ability to find and commercialize innovative ideas is an essential element in maintaining a successful and competitive economy especially in a brain-based economy, such as Canada. Medical research can ensure the highest quality of health care for Canadians.

Medical research is an important issue to the government.

As the population ages, as financial resources become more scarce, as innovative technology becomes more and more sophisticated and expensive, one must make sure that Canadians will have access to the best medical treatment possible, including Canadian-made medical innovations. For this reason, the federal government further increased the funding of the Medical Research Council of Canada (MRC). The $134 million announced in the budget should provide grants for research in the health sciences and the training of researchers. This will enable the MRC to promote cooperation between university researchers and industry, thereby turning the results of research into marketable products.

The Committee believes that more resources should be allocated to the Medical Research Council. Health research today is more challenging than when the MRC was first established. Medical research now encompasses many fields, such as genetics, nutrition, evolutionary theory of ethics and lifestyle choices, molecular biology, and microelectronics, just to name a few. Medical research therefore requires a multidisciplinary and multi-dimensional approach.

We need research projects to demonstrate better ways to provide home and community services and drug delivery programs and we need appropriate dissemination methods so that we can all benefit from new research in a timely manner.

Taylor Alexander (President & CEO, Canadian Association for Community Care)

We know that with respect to the social determinants of health when you don't put the money there, and certainly, millions of dollars have been yanked out of social services programs, that ultimately comes back into costs in the health care sector. If people have not had adequate food, housing and that sort of thing, that's where it comes in.

Kathleen Connors (President, National Federation of Nurses' Union)

Population health is putting the finger on the pulse of the well-being of the nation.

Robert McMurty, (University of Western Ontario)

In order to appreciate the diversity of medical research, many witnesses agreed that the Canadian Institute of Health Research (CIHR) should be funded. The institute would fully integrate health research into Canada's health care system; enhance research in areas where scientific opportunity converges with public health needs; coordinate and provide a national focus to Canada's research efforts; and drive the system forward to generate, for Canadians, the greatest possible human and economic benefits from health research.

[A]s a major funder of health care services across the country and a co-funder with you, we were delighted to hear the thoughts of the federal government of enhancing funding in this area in the next budget. We would strongly support this, and we would strongly support not just restoring funding, but working through the Department of Health with the officials there to look at creative ways of working with the voluntary sector and producing health programs and services across Canada that meet the shared objectives of Canadians.

David Armour (President, United Way of Canada)

If successful, CIHR will be an important platform for a knowledge-based economy. CIHR will provide job opportunities, allow new entrepreneurial possibilities and help the economy become more productive. It will also maintain and improve the health of Canadians and enhance the quality and access of health for all.

Hence the Committee recommends that the federal government provide adequate funding for the proposed Canadian Institute of Health Research.

The 1998 federal budget reversed the cuts that had been previously applied to the granting councils. The current funding levels for the Medical Research Council (MRC) are presently slightly more than they were in 1994. Still, our health care research pales in comparison to that in the United States, when measured on a per capita basis. Indeed, recent increases in American funding of the National Institute of Health are approximately equal to the level of MRC funding, when expressed on a per capita basis.

Clearly, health care is at the top of the list for Canadians in every region of the country. It is at the core of how we define ourselves as a national community - one of fairness and compassion.

Paul Martin, *The Economic and Fiscal Update, October 14, 1998.*

The Canadian research community has the capacity to undertake additional research if the funding was made available to them. The fact that high-quality, peer-reviewed proposals, are being rejected is evidence of this. The lack of funding is, in fact, causing Canada to lose its capacity to do research; that capacity is largely defined as brainpower.

A very telling anecdote in this regard was presented to the Committee by the MRC. During the current competition for the Burroughs-Wellcome Fund Career Awards in Biomedical Sciences, applications were received from 18 Canadians. Only four of them currently reside in Canada.

Research and development is the cornerstone of productivity, especially in the biomedical sciences. Currently, we are on the verge of becoming a leader in biotechnology, next to the United States. In comparison with the European Union (EU), our biotechnology revenues are one-half those of the European Union. Our R&D expenditures are more than one-third that of the EU and we possess one-third the biotechnology companies that the EU holds. Furthermore, we have 8% the EU's population. Clearly the small size of our economy and population are no barriers to being world-class.

The loss of these 12 physician scientists represents an investment of resources on which we have failed to capitalize. Repeatedly these people told us that the infrastructure support, salary and start up funding for a NEW laboratory were far superior elsewhere to what we could provide.

Dr. Barry Posnar (Professor of Medicine, McGill University, Montreal Neurological Institute and Hospital)

The Committee recommends that federal government funding for health research be doubled. This target should be achieved within five years. The recommendations pertaining to the MRC, the CIHR and the *Access to Quality Health Care Project* would all be part of this total budget.

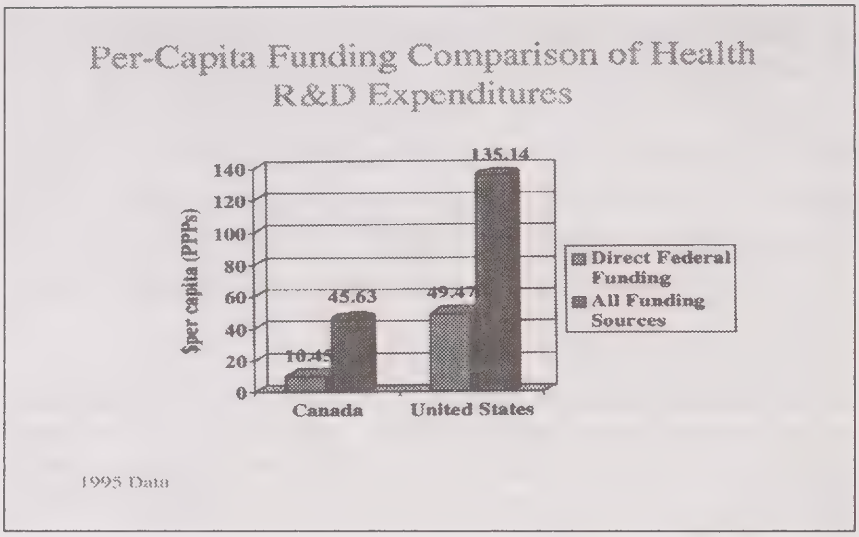
On a per capita basis, direct federal funding for health research and development is five times as high in the United States as it is in Canada. Even with the 1998 Budget measures, the Medical Research Council will have only 10% more funding in 1999 than it did in 1991. In the United States, on the other hand, funding for the National Institute of Health is half again as high as it was in 1991. The budgets for medical research in the United Kingdom and France have also increased much more rapidly than in Canada. The following two charts illustrate these international comparisons.

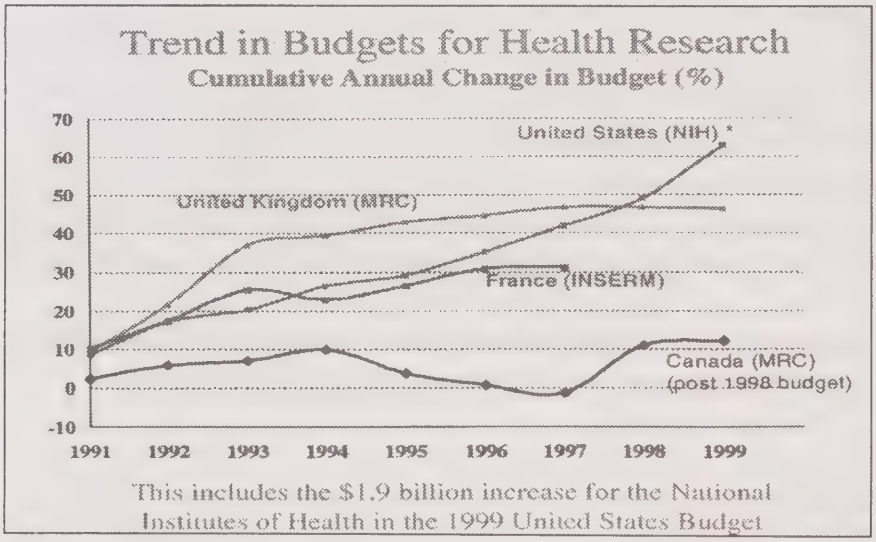
The CIHR concept envisions partnerships between all three national granting councils [and] the existing networks of centres of excellence... Why is this dramatic reorganization in health research necessary? To ensure that Canada realizes its commitment to be at the forefront of international health research.

Dr. Gary Glavin (Regional Director of Medical Research Council of Canada, Manitoba Medical Research Council)

The recommendation of the Committee to double federal funding for health research will bring Canadian funding closer to that of the United States.

It is however, the wish of the Committee that when conditions permit, the federal and provincial governments commit themselves to a long-term target for health research equal to 1% of total public spending on health care.





A healthy society is not just one that spends a great amount of resources on curing the sick. A healthy society is one where individuals are given the opportunity to be healthy and stay healthy. Early intervention, rather than cures, is truly an investment in the future health of Canadians.

The Community Action Program for Children (CAPC) is an example of a program designed to improve children's health by building healthy families and communities. This program is popular

amongst those working with poor families. The Committee sees this type of program as an example of successful, early intervention models that can be used to facilitate a healthy society.

The family is also crucial to the development of healthy Canadians. Early childhood development is a function of the quality of health care that children receive. The importance of healthy outcomes for children should be recognized and promoted by health, social and taxation policies that recognize the primary role of parents, respect their choices and recognize special circumstances.

The government must be sensitive to the ways in which tax policy can discriminate against women and in particular against low income women.

Margot E. Young (Associate Professor, National Association of Women and the Law)

Responding to Canadians' Priorities

In response to the clearly expressed priorities of Canadians, the government has taken steps to put its fiscal house in order while protecting Canada's enviable system of social programs. Indeed, as its finances have steadily improved over the past five years, the government has introduced several innovative new programs designed to help build a strong and compassionate society.

Some have been established to address urgent present-day needs, while others represent a forward-looking investment in the future. But all of them reflect the same philosophy, one that states that government must make the most effective use of its limited resources by focussing its actions in those areas where it can do the most good.

In that spirit, the government has devoted the greater part of its social resources to three key areas: renewing the health care system, helping Canada's youth overcome many of the challenges facing them, and investing in post-secondary education.

In fact, over 80% of the government's spending initiatives reflect 2 of the highest priorities of Canadians — access to knowledge and skills, and support for health and education.

A Renewed Health Care System

Clearly, the first priority is health care. Our national health care system is the embodiment of such Canadian values as compassion for the less fortunate and a sense of equality among citizens.

Public sector spending on health care accounted for 70 percent of all health care spending in 1996. — Canadian Institute for Health Information

In 1997, there were 1.2 million Canadians employed in the health and social services sector. Of these, 520,000 were employed in hospitals. — Statistics Canada

The number of people working in hospitals in Canada dropped by 7 percent between 1994 and 1997. — Statistics Canada

I'd like to congratulate the current government on the establishment of the Canada Foundation for Innovation about a year and a half ago. That's been a real boon to universities. It's going to help us bring our infrastructure up to standard.

Dr. Ian R. Dohoo (Associate Dean, Graduate Studies and Research, Atlantic Veterinary College, University of P.E.I.)

That is why, as the government's fiscal performance improved, its first major reinvestment initiative was to raise the cash floor of the Canada Health and Social Transfer (CHST) from $11 billion to $12.5 billion a year. As a result of this increase, the total CHST contribution the government provides to the provinces is now $26 billion a year.

However, while the government is strengthening its commitment to the traditional health care system, it is also seeking new ways to prepare that system to meet the challenges of the future. As Canada's population continues to grow and the proportion who are elderly increases, the demand on our health care system is expected to rise.

We must therefore find ways to provide the same high-quality care outside the confines of the traditional hospital-based approach. The government has allocated $65 million to the Health Services Research Fund. Furthermore, the $150 million invested in the Health Transition Fund will help provinces pilot test new approaches to health service delivery, while an additional $50 million was allocated to help establish health information systems.

The government has also provided funds to meet specific health-related challenges. It increased its contribution to the new blood agency by $60 million over the next 2 years. The 1998 budget also confirmed funding of $211 million over 5 years to fund the HIV/AIDS Strategy.

Canada's Youth: The Promise of a Bright Future

Too many young Canadians face imposing obstacles in their attempts to enter the world of work. Unfortunately, having difficulty finding that first job can have repercussions throughout a person's career. That is why helping young people find work is one of this government's top priorities.

In 1997, in response to the Ministerial Task Force on Youth (1996), the government unveiled the Youth Employment Strategy, a bold new initiative designed to help give young people all the advantages possible as they enter the workforce. The Strategy, which combines the efforts of the government, the private sector,

non-profit organizations and community groups, creates work opportunities in promising professional fields, where long-term career prospects are brightest. In the 1998 budget, the government committed $427 million to the Strategy.

The Youth Employment Strategy has four components:

... 85% of those taking part in the Youth Employment Strategy are working or in school within one year of completing their placements.

- Youth Internship Canada provides wage subsidies to employers to encourage them to offer meaningful work experiences to unemployed and underemployed young people. Participants acquire valuable work experience in such fields as science and technology, and international trade and development.
- Youth Service Canada funds projects designed for young Canadians with social or economic disadvantages, also known as "at risk" youth. Young people involved in this program invest their time, energy and expertise in community service projects.
- Summer Student Job Action provides wage subsidies to employers who offer summer employment to students. This program also funds information seminars and workshops on resume writing, looking for summer employment and preparing for job interviews.
- Youth Information Initiative provides young people with information they need about their education and careers.

The comprehensive approach represented by these four programs is the key to the impressive success enjoyed by the Youth Employment Strategy. Surveys of participants indicate that over 85% of those who have taken part in the program are either employed or in school 6 to 13 months after completing their placements.

Lifelong Learning: The Key to Success

For individual Canadians, a better education brings with it the promise of a better job and a higher standard of living. In recognition of this fact, this year the government introduced the Canadian Opportunities Strategy, an undertaking designed to

ensure that Canadians — especially those with low and middle incomes — have an equal opportunity to succeed in the new knowledge economy.

The cornerstone of this new Strategy is the Canada Millennium Scholarships. These scholarships represent the largest investment ever made by the government to support equal access to post-secondary education for all Canadians.

The government's initial investment of $2.5 billion will enable the presentation of 100,000 scholarships to full-time and part-time students. Every year for 10 years, these scholarships will be awarded to individuals who need help financing their education and who demonstrate merit.

There is also the newly created Canada Study Grants, to provide financial support to students in need who also have children or other dependents. These new grants will cost the government $100 million annually. Over 25,000 students in financial need with children could benefit from this aspect of the Strategy.

In order to make post-secondary education more accessible to all Canadians, the government has also adopted a number of measures in the area of debt management. These include: tax relief for interest on student debt; interest relief extended to more graduates; an extended repayment period for those who need it; an extended interest relief period for individuals who remain in financial difficulty; and a reduction in the loan principal for individuals who continue to face difficulties.

The Canada Opportunities Strategy also includes components designed to help people who are already in the workforce upgrade their skills, as well as to encourage families to save for education. What these two illustrate perfectly is that tax policy can, when used wisely, be an effective instrument to shape social policy.

Innovative Approach Toward Building Social Equity

The government has also taken that approach by introducing tax relief measures aimed at Canadians with disabilities; at individuals providing care for elderly or infirm family members; and at families with low incomes.

The federal government will spend $6 billion on the Canada Child Tax Benefit in 1999.

The 1998 budget also reinforced the government's commitment toward Canada's Aboriginal peoples. Initiatives specific to Aboriginal Canadians include a $350 million fund that has been set aside for a Healing Strategy to help address the legacy of abuse in residential schools. Also, $126 million that has been allocated for new and expanded Aboriginal programs, including basic services such as housing, and water and sewer systems, as well as investments in education, and social and economic development.

Aboriginal persons will also benefit from new initiatives such as the Canada Millennium Scholarships and the other components of the Canadian Opportunities Strategy, and the Canada Child Tax Benefit.

The Canada Child Tax Benefit is at the centre of the government's efforts to create a National Child Benefit (NCB) System. The objective of the NCB is to create a solid base of services and benefits for Canada's neediest children.

We look at gender analysis, protecting seniors' living standard, social housing, and court diversion programs for young offenders. These are other priorities.

Helen Saravanamuttoo
(Vice-President, National Council on the Status of Women)

Announced in 1997, the Canada Child Tax Benefit is designed to provide a benefit to all eligible families with children. The 1998 budget allocated additional funds for this Benefit, increasing it by $425 million in July 1999 and a second increase of $425 million annually in July 2000.

All of these programs will help Canadians deal with the challenges they face. Now that our nation is entering a new era of balanced budgets, we are in an excellent position to build on the successes of established programs, and focus our energy on responding to the emerging needs of our society.

As the Finance Committee continues to undertake this pre-budget consultation process in future years, we look forward to working with Canadians to identify those emerging needs, and to develop innovative new ways of meeting them.

CHAPTER 6: BUILDING A KNOWLEDGE–BASED ECONOMY

Knowledge and innovative ideas will increasingly be the keys to Canada's economic success. The Finance Committee has always recognized the importance of sustained investment in R&D. For example, in last year's report the Committee wrote Canada needs a fresh stimulus to adapt to the new economy, which will be characterized by "haut savoir–faire," if we want to maintain and improve the economic well–being of our citizens"[19] In the 1995 pre–budget consultation report, the Committee wrote "that Canada's ability to compete in the knowledge–based global economy is central to our future prosperity".[20]

We've lost just this fall at UNB, [our] senior paper and pulp and paper chemical engineer to the University of Maine... And we've lost that person's expertise because the University of Maine was able to come up with the funding to supply his laboratory and technical assistance that UNB was having to curtail because the sources of funding that we have are drying up.

John Thompson (Past President and Member of the Board and Chair of the Department of Mathematics at the University of New Brunswick)

There is no doubt the government shares this view. In fact, the federal government has been supporting research at Canadian post–secondary educational institutions and research hospitals for most of the past half–century.

Productivity is an important determinant of economic growth and our future standard of living. Our future wealth depends on Canada's productivity performance. It is the foundation of our economic and social prosperity and our ability to compete in a global market. This is why supporting R&D, a vital component of productivity growth, is so important.

In the last budget, the federal government announced significant increases in the funding of the three Canadian granting councils which provide financing for Canada's best and brightest researchers. This initiative is particularly important to support advanced research and graduate students as they develop the leading–edge skills needed for a knowledge–based economy. The measures announced are such that by 2000–2001, the three

19 Finance Committee, *Keeping the Balance*, December 1997, p. 36.

20 Finance Committee, *The Next Steps to Fiscal Health After a Year of Historical Progress*, January 1996, p. 36.

granting councils will have received more than $400 million in additional resources and their budgets will be at their highest level ever.

> *... the price of scientific books and journals has been rising at well over 10% per year for several years.*
>
> Tom Brzustowski

Now that our fiscal house is in order, the Committee recommends new financial initiatives that will facilitate basic and applied research in Canada. If adopted, the set of recommendations will increase our ability to capture productivity gains, attract and retain highly productive researchers and successfully adapt to the knowledge–based economy. More funding will increase our capacity to carry out leading-edge research and technology development. It will allow us to foster an environment that will sustain and build on Canada's research strengths.

Two years ago this government announced its renewed commitment to Networks of Centres of Excellence and the creation of the Canadian Foundation for Innovation. All the witnesses were unanimous in applauding the government for these very important initiatives.

The Foundation was established to provide financial support for modernizing research facilities and equipment at Canadian post–secondary educational institutions and research hospitals in the areas of science, engineering, health and the environment. Tied into this and as seen in the previous section, the Committee recommends important new funding initiatives for health research in Canada. As we said, the outcome of improved health research will be innovative ideas that will inevitably lead to better health care for all Canadians.

> *The decline of the dollar this summer has decreased the purchasing power of NSERC's equipment budget by more than 12%.*
>
> Tom Brzustowski

The highly successful Networks of Centres of Excellence Program is an innovative approach that leads to better research collaboration between the academic, private and public sector. By adopting a larger vision, these research institutes contribute to improving our productivity performance and quality of life. The Program also contributes to developing Canadian scientists and engineers and keeping them in Canada. As quality proposals in search of funding exceed the supply of funds available, the

Committee believes that increased R&D funding should be a high priority. We believe that the capacity to effectively and efficiently employ this additional funding exists in Canada.

The Committee recommends that the annual federal government funding level of the Networks of Centres of Excellence Program be raised so that more high–quality research proposals be financially supported.

Technology Partnerships Canada is another important government initiative. By making strategic investments in near market technological development projects, this program helps Canada improve its economic performance. It also speeds up the commercialization of new technologies in Canada and levels the international playing field for Canadian firms. Here, like the Networks Centres of Excellence Program, demand for funding coming from high–quality proposals greatly exceeds the supply of funds available. The Program is heavily oversubscribed, indicating a strong demand. The lack of additional funds leads to foregone opportunities for Canadian companies as they are not able to commercialize new productivity–enhancing technologies. This can mean lost employment opportunities for highly skilled professionals in Canada.

Within all of the industries that are represented by the CATA Alliance, there is a strong sense that there is a significant brain drain. Many of the companies can point to examples of losing valuable staff, very often their best people.

David Patterson (Canadian Advanced Technology Association Alliance)

The Committee recommends, as it did last year, that the federal government increase its financial support of the Technology Partnerships Canada so that more strategic, targeted interventions in high–growth sectors, where Canadian firms can become world leaders, can be made.

Not only the private sector is involved in leading science and technology development. R&D undertaken at federal facilities contribute significantly to basic and applied research. The results of high–risk research initiatives can then be shared with the public and private sector. By investing directly in R&D, the federal government is taking on risk that the private sector cannot. For example, the National Research Council of Canada (NRC) supports national science and engineering activities, performs and stimulates investment in R&D, and develops vital expertise and knowledge. The Research Branch of Agriculture and Agri–Food Canada improves the competitiveness of the Canadian agri–food sector through the development and transfer of innovative technologies. There are other important federal scientific and

Tax credits claimed by industry for R&D in recent years have amounted to about $1.2 billion annually, and more than half of all large manufacturing firms (firms of more than 500 employees) conducting R&D claimed them. -- Manley Report

technological initiatives benefitting Canadians such as the Canadian Space Agency, the National Water Research Institute, the Institute of Ocean Sciences and the Transportation Development Centre.

The Committee recommends that the government enhance its financial support for federal government science, in particular the work of the NRC.

CHAPTER 7: UNFINISHED BUSINESS

In last year's report,[21] the Committee recommended a series of measures relating to specific industries or economic activity, upon which the government has not acted. We still believe these measures warrant the government's attention.

CHARITIES

The Finance Committee has always taken special interest in the charitable sector. As everyone knows, the Committee has made several important recommendations to the government over the years. It almost always agreed with our recommendations and introduced numerous new tax incentives to foster charitable giving.

The time has come, however, for the federal government to properly assess the effectiveness of all these tax measures. To make sure that they are meeting the tax policy objectives one must carefully evaluate their effects. Do they work? Are they efficient? In order to do that assessment, one must have a period in which the system is in equilibrium, where no new initiatives are announced and initiated. Hence 1999 should be the base year to assess the long list of tax incentive measures introduced over the years.

Once this evaluation is completed, the government will be able to introduce new and more effective tax incentives if necessary. This is why the Committee is not recommending any new tax initiatives related to charities.

This does not mean that this Committee is losing interest in the voluntary sector. On the contrary, the Committee believes that the government must work in partnership with philanthropic organizations. They have become important players over the years, capable of meeting great challenges in the face of fiscal restraint. In many respects, these voluntary organizations increase the quality of life of millions of Canadians, especially the most vulnerable.

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21 See Chapter 3 of Finance Committee, *Keeping the Balance*, December 1997, p. 71 to 82.

The Committee believes it is crucial that the effects of past changes to the tax treatment of charitable donations be evaluated. The Department of Finance should collect all the data needed to conduct such a review, and commence the evaluation as soon as possible.

EXCISE TAX ON JEWELLERY

The federal government has imposed a 10% excise tax on jewellery since 1918. This has resulted in underground activity within this industry, and subsequent increases in the cost of tax enforcement.

The Committee therefore recommends that the Department of Finance eliminate the excise tax on jewellery.

PHYSICIANS AND THE GST

According to the Canadian Medical Association, the GST is unfair to physicians because they are unable to claim input tax credits for business expenses. Because physicians are unable to recoup GST expenses through other charges, this has adversely affected the recruitment and retainment of Canadian doctors. This issue continues to merit further consideration by the government.

PRIVATE WOODLOTS

Due to the long period required for woodlots to mature, Revenue Canada argues that the woodlot business does not appear to meet reasonable expectations for profitability. The private woodlot industry argues that the tax system operates as a disincentive against sustainable forest management. This year again the Committee heard testimony in this regard. However, we note that Revenue Canada has recently released a draft Interpretation Bulletin on woodlots. Industry groups are able to comment on this bulletin. It appears that this bulletin addresses many of the concerns expressed by industry groups. Under certain circumstances they would be treated as farmers and receive all of the tax benefits that farmers receive.

The Committee is comforted by Revenue Canada's initiatives and encourages the government to favour sustainable management practices in this important forestry sector via an appropriate tax treatment of woodlot operators.

INCOME AVERAGING FOR ARTISTS

Artists and writers pay higher taxes on average because of the variability of their incomes. With a progressive income tax, those with highly variable incomes will pay more tax than those who earn the same amount year after year.

The Committee therefore continues to recommend that the government consider the introduction of income averaging for those forms of income that fluctuate substantially from year to year.

APPRENTICES' TOOLS

Apprentices and technicians working in the automotive industry are not subject to the special provisions in the *Income Tax Act* as are artists, chainsaw operators and musicians. The initial cost of tools, and annual replacement purchases, can total tens of thousands of dollars, yet are not deductible.

The Committee continues to recommend that the government provide targeted tax relief for all those who must bear large expenses as a condition of employment, such as is the case with mechanics' tools.

MAJOR NATURAL CATASTROPHE

The insurance industry has argued that Canada is not prepared for natural catastrophes and current taxation and accounting practices do not facilitate the creation of reserves by the insurance industry. To counter this, the government has required that insurers demonstrate the ability to measure and fund their earthquake exposure.

While the Committee is greatly encouraged by the establishment of earthquake reserves, it still recommends that the government continue working with the insurance industry to determine the tax treatment of earthquake reserves.

CHAPTER 8: THE 1998 BUDGET AND *KEEPING THE BALANCE*

The House of Commons Standing Committee on Finance held its first series of pre-budget consultations in the fall of 1994. This innovation was designed to provide Canadians with a formal mechanism by which they could make suggestions as to the contents of the next budget. The annual reports of the Committee have had a great influence in shaping the direction of subsequent budgets. Last year's Report, *Keeping the Balance*, was no different.

The context of last year's report differed from that of previous reports. It was written in a fiscal environment where the government's books were on the verge of being balanced. This presented the Committee with a new set of opportunities and challenges, different from those that were present when the government was struggling with massive deficits.

The Committee recommended that the budget-making process continue to focus on short-term targets and use prudent economic assumptions. The Committee provided the Minister of Finance the ability to use greater prudence when circumstances warranted it. The Minister did this. Any unused portion of the $3 billion contingency reserve was, in the Committee's view, to be used for debt reduction; this was also accepted.

As the budgetary position of the government was close to balanced, the Committee saw an opportunity to start to address some of the longer-term needs that could not be dealt with in previous budgets. We recommended reinvestment in research and development and the high-technology sector. We offered several recommendations to make post-secondary education more accessible and to address the challenges faced by young Canadians, especially youth at risk. Furthermore, we thought it was time to consider general tax relief for Canadians.

These, and other recommendations, were all enacted in the 1998 federal budget. Details are provided in the following table.

	KEEPING THE BALANCE RECOMMENDATIONS	1998 BUDGET MEASURES
BUDGET MAKING PROCESS	Two-year rolling targets.	Accepted.
	$3 billion contingency reserve every year.	Accepted.
	Unused contingency reserve to be used for debt reduction.	Accepted.
	Prudence factor for short- and long-term interest rates to be set between 50 and 100 basis points.	Accepted.
GRANTING COUNCILS	Funding should be increased and made stable over the longer term.	Funding restored to 1994-95 levels as of April 1, 1998, with increased funding subsequently. Increases over 3 years total $400 million.
INFORMATION HIGHWAY	Continue CANARIE Project. Expand school and community access programs.	Accepted.
SUPPLEMENTAL HEALTH BENEFITS	Recommend that unincorporated business be treated like incorporated ones and be able to deduct from income the cost of such insurance.	Accepted. Starting in 1998, self-employed unincorporated individuals may deduct premium costs from business income.
YOUTH UNEMPLOYMENT	Recommend additional funding for Youth Employment Strategy, Youth Service Canada and Student Summer Job Action.	Youth Service Canada funding more than doubled.
STUDENT DEBT	Recommend a deferred federal credit to match portion of RESP contributions.	Canada Education Savings Grant announced.
	Recommend measures to make debt loads more manageable.	Announced measures to allow the deduction of interest from income, to enhance interest rate relief and provide partial debt forgiveness in some circumstances.
TAX RELIEF	Eliminate 3% surtax.	Fully and partially eliminated for low- and middle-income taxpayers.
	Increase basic personal and spousal amounts.	Each enhanced by $500 for low-income taxpayers.
GST ON SHIPPING AND HANDLING	Independent sales contractors should be relieved of GST on shipping and handling charges.	Accepted.
EI PREMIUMS	20-cent reduction in premium.	Accepted and announced prior to budget.

CANADA TELEVISION AND CABLE PRODUCTION FUND	Maintain the fund.	Accepted and announced prior to budget.
TOBACCO TAXATION	Increase level of taxation as circumstances permit.	Accepted and announced prior to budget.

A copy of the relevant Minutes of Proceedings of the Standing Committee on Finance (*Meeting No. 164*) is tabled.

Respectfully submitted,

Maurizio Bevilacqua, MP

Chair

APPENDIX A
List of recommendations

The Committee makes the following recommendations:

1. The Committee recommends that the Government of Canada continue to use prudent economic assumptions in the formulation of the budget.

2. The Committee recommends that assumptions about both short- and long-term interest rates continue to be set 50 to 100 basis points higher than the private sector average. The Minister should alter the prudence factor as circumstances warrant.

3. The Committee recommends that the government continue to employ a Contingency Reserve, which should be set at $3 billion per year. As at present, the Contingency Reserve should not be used to fund either increased program spending or tax cuts.

4. The Committee recommends that the government continue to use two-year planning horizons for the conduct of fiscal policy.

5. The Committee recommends that the government take steps to accelerate the downward trend in the net debt-to-GDP ratio and not rely solely upon growth in the economy. The unneeded portion of the Contingency Reserve should be applied to debt reduction.

6. The Committee recommends that the federal government establish a long-term target for a sustainable debt-to-GDP ratio.

7. The Committee recommends that the federal government establish an interim debt-to-GDP target range of 50% to 60%, to be achieved in this mandate.

8. The Committee recommends that any new spending initiatives be subject to the rigorous and detailed test of the principles of Program Review and that the results of that review be published at the time any new program is announced.

9. The Committee recommends that a comprehensive strategy for productivity enhancement be undertaken by the government and that a Productivity Covenant be established against which all federal initiatives would be judged.

10. The Committee recommends that the temporary 3% surtax be completely eliminated in the next budget.

11. The Committee recommends that the government announce a timetable for the elimination of the 5% surtax, starting with a 1-percentage-point decrease in 1999.

12. The Committee recommends that the 1998 budget measures, that increased the basic personal amount and spousal amount by $500 for lower-income taxpayers be increased by a further $200, bringing to $700 the amount of additional income that can be earned tax free.

13. The Committee further recommends that this $700 increase in the basic personal and spousal amount be available to all Canadian taxpayers.

14. The Committee recommends that the government reduce EI premiums by a minimum of 10 cents per $100 of insurable earnings.

15. The Committee recommends that the government reintroduce indexation when the fiscal situation permits, in the meantime measures should be taken to offset the impact of de-indexation.

16. The Committee recommends that the 20% Foreign Property Rule be increased in 2% increments to 30% over a five-year period. This diversification will allow Canadians to achieve higher returns on their retirement savings and reduce their exposure to risk, which will benefit all Canadians when they retire.

17. The Committee recommends that the federal government strengthen its involvement in the health care system by further increasing the cash floor by $1 billion starting in 1999-2000. If the cash floor is raised by $1 billion, the 1999-2000 total entitlements will increase by 6.3% as a result when compared to 1998-99 ($27.6 billion compared to $25.97 billion). Provinces will have received another $4 billion extra by 2002-03. Total CHST entitlement will reach $29.5 billion in 2002-2003.

18. The Committee recommends that the federal government provide adequate funding for the proposed Canadian Institute of Health Research.

19. The Committee recommends that federal government funding for health research be doubled. This target should be achieved within five years. The recommendations pertaining to the MRC, the CIHR and the Access to Quality Health Care Project would all be part of this total budget.

20. The Committee recommends that the annual federal government funding level of the Networks of Centres of Excellence Program be raised so that more high–quality research proposals be financially supported.

21. The Committee recommends, as it did last year, that the federal government increase its financial support of the Technology Partnerships Canada so that

more strategic, targeted interventions in high–growth sectors, where Canadian firms can become world leaders, can be made.

22. The Committee recommends that the government enhance its financial support for federal government science, in particular the work of the NRC.

23. The Committee believes it is crucial that the effects of past changes to the tax treatment of charitable donations be evaluated. The Department of Finance should collect all the data needed to conduct such a review, and commence the evaluation as soon as possible.

24. The Committee therefore recommends that the Department of Finance eliminate the excise tax on jewellery.

25. The Committee is comforted by Revenue Canada's initiatives and encourages the government to favour sustainable management practices in this important forestry sector via an appropriate tax treatment of woodlot operators.

26. The Committee therefore continues to recommend that the government consider the introduction of income averaging for those forms of income that fluctuate substantially from year to year.

27. The Committee continues to recommend that the government provide targeted tax relief for all those who must bear large expenses as a condition of employment, such as is the case with mechanics' tools.

28. While the Committee is greatly encouraged by the establishment of earthquake reserves, it still recommends that the government continue working with the insurance industry to determine the tax treatment of earthquake reserves.

APPENDIX B
Witnesses List

Associations and Individuals	Date
Business Council on National Issues	Monday, June 8, 1998
Thomas d'Aquino, President and CEO	
David Stewart-Patterson, Vice-President, Policy and Communications	
Canadian Association of Insurance and Financial Advisors	
Bill Strain, Chair, Taxation, Conference for Advanced Life Underwriting (CALU)	
David Thibaudeau, President	
Canadian Printing Industries Association	
Michael Makin, President	
Canadian Real Estate Association	
Pierre Beauchamp, Chief Executive Officer	
Gregory Klump, Senior Economist	
Osgoode Law School	
Neil Brooks	
Retail Council of Canada	
Leonard Eisen, Chair, Taxation, Committee and Treasurer of Agora Foods Merchants	
Peter Woolford, Senior Vice-President, Policy	
Technical Committee on Business Taxation	
Wilfrid Lefebvre, Member	
Jack Mintz, Chair	
Aerospace Industries Association of Canada	Tuesday, June 9, 1998
Peter Smith, President and CEO	
Assembly of First Nations	
Phil Fontaine, National Chief	

Associations and Individuals	Date
Association of Universities and Colleges of Canada	Tuesday, June 9, 1998
Robert J. Giroux, President	
CAE Inc.	
Robert (Bob) Waite, Vice-President, Corporate Relations and Marketing	
Canada Foundation for Innovation	
Denis Gagnon, Senior Vice-President	
Canadian Auto Workers Union	
Basil (Buzz) Hargrove, President	
Bill Murnigham, National Representative	
Canadian Institute of Child Health	
Graham W. Chance, Chair	
Canadian Labour Congress	
Robert (Bob) Baldwin, National Director, Social and Economic Policy Department	
Andrew Jackson, Chief Economist	
Canadian Medical Association	
Victor Dirnfeld, M.D., Former President	
Canadian Union of Public Employees	
Richard Balnis, Director of Research	
Stan Marshall, Senior Research Officer	
United Steelworkers of America	
Hugh MacKenzie, Director of Research	
Canadian Association of Gift Planners	Wednesday, June 10, 1998
David Boyd-Thomas, Vice-Chair	
Canadian Centre for Philanthropy	
Gordon Floyd, Director of Public Affairs	
Coalition of National Voluntary Organizations	
Al Hatton, Executive Director	

Associations and Individuals	Date
Community Foundations of Canada	Wednesday, June 10, 1998
Monica Patten, President and CEO	
United Way of Canada — Centraide Canada	
David Armour, President	
War Amps	
H. Clifford Chadderton, OC, O.Ont., DCL, LLD, Chief Executive Officer	
Brian Forbes, Solicitor	
Alliance of Manufacturers and Exporters Canada	Thursday, June 11, 1998
John Allinotte, Director, Corporate Taxation, Dofasco Inc.	
Brian W. Collinson, Director, Commercial Policy	
Jayson Myers, Senior Vice-President and Chief Economist	
Canadian Academy of Engineering	
Pierre Franche, Executive Director	
Canadian Association of University Teachers	
Robert Léger, Senior Policy Analyst, Research/Lobbying	
Shirley Mills, Treasurer, Professor of Mathematics and Statistics, Executive Committee Carleton University	
Canadian Bankers' Association	
Ron Friesen, Chair, Taxation Committee (Vice-President, Taxation, Bank of Montreal)	
Mark Weseluck, Vice-President, Banking Operations	
Canadian Consortium for Research	
Paul T. Hough, Chair	
Canadian Gift and Tableware Association	
Jack Shand, CAE, President	

Associations and Individuals	Date
Canadian Office Products Association	Thursday, June 11, 1998
James H. Preece, CAE, President	
Canadian Professional Sales Association	
Terry Ruffel, President	
Canadian Retail Building Supply Council	
Stephen Johns, President	
Canadian Vehicle Manufacturers' Association	
David C. Adams, Secretary and Director, Policy Development	
Coalition for Biomedical and Health Research	
Clément Gauthier, Executive Director	
Humanities and Social Sciences Federation	
Chad Gaffield, Chair	
Partnership Group in Science and Engineering	
Howard Alper, Chair	
Canadian Advanced Technology Alliance	Friday, June 12, 1998
Shirley-Ann George, Executive Director, Ottawa	
David Perry, Member, Perry Martel International Inc.	
IBM (Canada)	
Wayne Scott, Government Programs Executive	
Natural Sciences and Engineering Research Council of Canada	
Thomas A. Brzustowski, President	
Steve Shugar, Director, Policy and International Relations	
Nortel (Northern Telecom)	
Claudine Simson, Vice-President, Global External Research and Intellectual Property	
Automotive Industries Association of Canada	
Dean H. Wilson, President	

Associations and Individuals	Date
Canadian Dental Association	Tuesday, September 22, 1998
Richard Sandilands, President	
Raymond Webb, Member, Government Relations Steering Committee and Past President	
Canadian Federation of Agriculture	
Jack Wilkinson, President	
Canadian Healthcare Association	
Aileen Leo, Director, Communications	
Sharon Sholzberg-Gray, President and CEO	
Kathryn Tregunna, Director, Policy Department	
Canadian Medical Association	
Léopold Landry, Secretary General, Chair RRSP Alliance	
Allan Reddock, President	
Canadian Nurses Association	
Mary Ellen Jeans, Executive Director	
Coalition to Renew Canada's Infrastructure	
Jim Facette, President and Secretary	
Conference of Defence Associations	
Sean Henry, Retired Colonel, Senior Defence Analyst	
Alain Pellerin, Retired Colonel, Executive Director	
Fisheries Council of Canada	
Ronald W. Bulmer, President	
HEAL — Health Action Lobby	
Taylor Alexander	
Alastair Thomson	
Hotel Association of Canada	
Anthony P. Pollard, President	

Associations and Individuals	Date
National Federation of Nurses' Unions	Tuesday, September 22, 1998
Kathleen Connors, President	
Stentor Telecom Policy Inc.	
Barry W. Pickford, Chairman, Stentor Tax Committee and Vice-President, Taxation, Bell Canada	
Canadian Association of National Voluntary Organizations	Wednesday, September 23, 1998
Penelope Marrett, Director, Health Questions	
Ruth Vant, Member, Board of Director	
Canadian Cancer Society	
Ken Kyle, Director, Public Issues	
Canadian Centre for Philanthropy	
Gordon Floyd, Director, Public Affairs	
Canadian National Institute for the Blind	
Nancy Amos, Researcher and Writer	
Fran Cutler, Member, Board of Directors, Chair, Communications Committee	
Heart and Stroke Foundation of Canada	
William Thall, Executive Director	
Audrey Vandewater, President	
United Way of Canada — Centraide Canada	
David Armour, President	
Action Canada for Population and Development	Monday, September 28, 1998
Ann Burnett, Parliamentary Co-ordinator	
Katherine McDonald, Executive Director	
Building and Construction Trades Department	
Robert Belleville, Director, Canadian Affairs, Sheet Metal Workers' International Association	
Joseph Maloney, Director, Canadian Affairs, National Office	

Associations and Individuals	Date
Canada Family Action Coalition	Monday, September 28, 1998
Peter Stock, Director, National Affairs	
Canadian Centre for Policy Alternatives	
Bruce Campbell, Executive Director	
Canadian Chemical Producers' Association	
John B. Arnold, Senior Income Tax Advisor	
David W. Goffin, Secretary-Treasurer and Vice-President, Business and Economics	
Canadian Council for International Co-operation	
Gauri Screenivasan, Policy Coordinator	
Canadian Council on Social Development	
Chuck Birchall, Past President	
Susan Carter, Associate Director	
Pierre Laliberté, Research Associate	
Canadian Steel Producers' Association	
Jean Van Loon, President	
Canadian Worker Co-operative Federation	
Mark Goldblatt, President	
National Anti-Poverty Organization	
Mike Farrell, Assistant Director	
Laurie Rektor, Executive Director	
National Round Table on the Environment and the Economy	
David McGuinty, Executive Director and CEO	
Stuart Smith, Chair	
Sierra Club of Canada	
John Bennett, Director, Energy and Atmosphere	
Air Transport Association of Canada	Thursday, October 1, 1998
Howard Goldberg, Vice-President and Secretary	
Clifford J. Mackay, President and CEO	

Associations and Individuals	Date
Amalgamated Transit Union—Canadian Council	Thursday, October 1, 1998
Al Loney, Regional Municipality of Ottawa-Carleton Councillor, Chair of the RMOC Transit Commission	
Ken Ogilvie, Executive Director, Pollution Probe	
"Association des producteurs de films et de télévision du Québec (APFTQ)"	
Mylène Alder, Director, Legal Afffairs and Labour Relations	
Marie-Josée Corbeil, Vice-President and Head of Legal and Commercial Affairs of CINAR Films	
Association of Canadian Publishers	
Paul Davidson, Executive Director	
Jack Stoddart, President	
Canadian Conference of the Arts	
Philippa Borgal, Associate Director	
Canadian Film and Television Production Association	
Guy Mayson, Senior Vice-President, Operations and Membership Services	
Elizabeth McDonald, President	
Canadian Housing and Renewal Association	
Sharon Chisholm, Executive Director	
Canadian Museums Association	
John G. McAvity, Executive Director	
Certified General Accountants' Association of Canada	
Mark Boudreau, Vice-President, Public and Government Relations	
Don Goodison, Chair, Tax Policy Committee	
Cultural Human Resources Council	Thursday, October 1, 1998

Associations and Individuals	Date
Jean-Philippe Tabet, Executive Director	
Federation of Canadian Municipalities	
Louise Comeau, Analyst, Politics and Programs	
René Danis, Counsellor, Gloucester Township	
James W. Knight, Executive Director	
International Association of Fire Fighters	
Erik Leicht, Chair, Pension Committee, Ontario Professional Fire Fighters Association	
Sean P. McManus, Canadian Director	
Rick Miller, Ontario Municipal Employees Retirement System Board Member	
Learning Disabilities Association of Canada	
James Horan, Past President	
National Children's Alliance	
Dianne Bascombe	
Maggie Fietz	
Harvey Weiner	
National Council of Women of Canada	
Joyce Ireland	
Shirley McBride, Economics Convener	
Helen Saravanamuttoo, Vice-President	
North-South Institute	
Roy Culpeper, President	
Ontario Council of Agencies Serving Immigrants	
Carl Nicholson, Treasurer	
Railway Association of Canada	
R.H. Ballantyne, President	

Associations and Individuals	Date
Writers' Union of Canada	Thursday, October 1, 1998
Merilyn Simonds, Co-Chair, Cultural Agenda Lobby Committee	
Canada Foundation for Innovation	Friday, October 2, 1998
Denis Gagnon, Senior Vice-President	
Canadian Advanced Technology Alliance	
David Patterson	
Canadian Automotive Repair and Service Institute	
Keith Lancasle, Spokesperson	
Information Technology Association of Canada	
Anthony R.J. Castell, Vice-President Taxation Canada, Nortel	
Gaylen Duncan, President and CEO	
Investment Funds Institute of Canada	
Peter Bowen, Chair, Taxation Steering Committee, Vice-President and Fund Treasurer, Fidelity Investments	
John Mountain, Vice-President, Regulation	
Pharmaceutical Manufacturers Association of Canada	
Robert Dugal	
Judith A. Erola, President	
Advanced Education Council of British Columbia	Monday, October 5, 1998
Gerry Della Mattia, Executive Director	
Neil Nicholson, President	
B.C. Federation of Labour	
Phillip Legg, Director	
BCTEL Taxes Department	
Robert G. Seney, Tax Director	

Associations and Individuals	Date
British Columbia and Yukon Territory Building and Construction Trades Council	Monday, October 5, 1998
Joe Barrett, Researcher	
British Columbia Business Council	
Jock Finlayson, Vice-President, Policy and Analysis	
Tim McEwan, Senior Policy Analyst	
Brophy Place Tenant's Action Association	
Keith Davis, Vice-President	
Canadian Centre for Policy Alternatives	
Seth Klein, Director	
Canadian Federation of Students — British Columbia Component	
Michael Conlon, National Executive Representative	
Coalition for Biomedical and Health Research	
Kevin Keough, Vice-President, Research and International Relations Memorial University	
College Institute Educators' Association of B.C.	
Ed Lavalle, President	
Confederation of University Faculty Associations of British Columbia	
Robert Clift, Executive Director	
Hospital Employees' Union	
Fred Muzin, President	
Independent Living Resource Centre	
Leon Mills, Chairperson	
Mary Reid, Executive Director	
National Graduate Council of the Canadian Federation of Students	
Joy Morris, Member	

Associations and Individuals	Date
Newfoundland and Labrador Federation of Labour	Monday, October 5, 1998
Elaine Price, President	
Newfoundland and Labrador Federation of Students	
Dale Kirby, President	
Tracey O'Reilly, Representing Memorial University Student Union	
St. John's Board of Trade	
Sandy Gibbons, President	
Lori Lee Oates, Research Assistant Government Affairs	
Stella Burry Corporation	
Jocelyn Greene, Executive Director	
Vancouver Board of Trade	
Richard Fraser, Vice-President, Corporate and Project Development	
John Hansen, Chief Economist	
As Individuals	
Herbert Grubel, Professor of Economics, Simon Fraser University	
Jack Harris, Leader of Newfoundland New Democrats	
Philip W. Owen, Mayor of Vancouver	
Acadia Students' Union	Wednesday, October 7, 1998
Paul Black, Vice-President (Academic)	
Anti-Poverty Network Halifax	
Ian Tay Landry, Member	
Susan LeFort, Member	
Atlantic Popular Education Network	
Juan Telez, Member	
Margaret Tusz, Member	

Associations and Individuals	Date
Canadian Association for University Continuing Education	Wednesday, October 7, 1998
Jim Sharpe, Past President	
Canadian Federation of Students — National Graduate Council	
Jessica Squires, Representative	
Canadian Federation of Students — Nova Scotia Component	
Penny McCall-Howard	
Canadian Pensioners Concerned	
Joan Lay, Spokesperson	
Credit Union Central of British Columbia	
Helmut Pastrick, Chief Economist	
Dalhousie University	
W. Carl Breckenridge, Associate Dean (Research and Planning), Medical Research Services	
End Legislated Poverty	
Linda Moreau, Organizer	
"Fédération des francophones de la Colombie-Britannique"	
Diane Côté, President	
Yseult Friolet, Executive Director	
Metropolitan Halifax Chamber of Commerce	
Peter Doig, Chair, Government Affairs Committee	
Michael A. Schmid, Chair, Federal Finance Task Force	
National Association of Women and the Law	
Shelagh Day, Special Advisor on Human Rights	
Margot E. Young, Associate Professor	

Associations and Individuals	Date
National Cancer Research Institute	Wednesday, October 7, 1998
Gerald Johnston, Terry Fox Research Scientist	
New Democratic Party of Nova Scotia	
Maureen MacDonald, M.L.A. Health Critic	
Nova Scotia Advisory Council on Status of Women	
Stella Lord, Researcher	
Nova Scotia Federation of Labour	
Les Holloway, General Vice-President	
Nova Scotia Government Employees Union	
Joan Jessome, First Vice-President	
Ian Johnson, Policy Analyst/Research	
Nova Scotia School Boards Association	
Marg Forbes, President	
Mary Jess MacDonald, Second Vice-President	
As Individual	
Peter Wilde, Chartered Accountant	
Alberta Association of Registered Nurses	Thursday, October 8, 1998
Lorraine Way, President	
Alberta Association of Social Workers	
Rod Adachi, Ex-Director	
Alberta Federation of Labour	
Audrey M. Cormack, President, Executive Council	
Alberta School Boards Association	
David Anderson, Executive Director	
L.J. Roy Wilson, President	
Calgary and District Labour Council	
Gordon M. Christie, Executive Secretary/Organizer	

Associations and Individuals	Date
Canadian Dehydration Association	Thursday, October 8, 1998
Garry F. Benoît, Executive Director	
Coal Association of Canada	
Ken Myers, Treasurer, Fording Coal Ltd., Chair of the Economics and Taxation Committee	
Financial Executives Institute Canada	
Rollason W. Peter, Chair, Government Affairs Committee	
Independent Insurance Brokers Association of Alberta	
Harold Baker, Executive Director	
Ginny Bannerman, President	
Mike Saunders	
Kids First, Parent Association of Canada	
Cathy Buchanan, National Secretary	
Cathy Perri, President	
As Individuals	
Mark Anielski, Senior Fellow Redefining Progress	
Heather Gore-Hickman	
Beverly Smith	
Alberta Teacher's Association	Friday, October 9, 1998
Tim Johnston, Executive Assistant	
"Association canadienne-française de l'Alberta"	
Suzanne de Courville Nicol Sawyer, Vice-President	
Calgary Chamber of Commerce	
Sean Ballard, Analyst, Policy and Planning	
Ray Huddlestone, Division Manager, Policy and Planning	
George McKenzie, Chair of the Tax and Economic Affairs Committee	
Irene Pfeiffer, President	

Associations and Individuals	Date
Canadian Association of Student Financial Aid Administrators	Friday, October 9, 1998
Teresa Alm, President	
Charlotte French, Past President	
Confederation of Alberta Faculty Associations	
Scott Grills, President	
Health Sciences Association of Alberta	
Elisabeth R. Ballermann, President	
Results Canada	
Catherine Little, National Manager	
United Nurses of Alberta	
Heather Smith, President	
University of Calgary	
Marvin Fritzler, Associate Dean, Research Faculty of Medecine	
Department of Finance	Wednesday, October 14, 1998
Paul Martin, Minister of Finance	
32 Hours: Action for Full Employment	Thursday, October 15, 1998
Anders Hayden, Research and Policy Coordinator	
Ad Hoc Working Group on Budget Alternatives	
Ali Gholipour, Executive Director VIGIL	
Avvy Go, Director Metropolitan Toronto Chinese and Southeast Asian Legal Clinic	
Mohamed Tabit, Executive Director Midaynta	
Association of Canadian Pension Management	
Wendy Gauthier, Member AGR Retirement Income Task Force	
Ian Markham, Vice-Chair Advocacy and Government Relations Committee	

Associations and Individuals	Date
Board of Trade of Metropolitan Toronto	Thursday, October 15, 1998
M. Elyse Allan, President and Chief Executive Officer	
Michael Beswick, Chair Pension and Benefits Committee	
Maralynne Monteith, Chair, Taxation Committee	
Louise Verity, Director of Policy	
Business Council on National Issues	
Thomas d'Aquino, President and CEO	
Campaign 2000	
Laurel Rothman, Acting National Coordinator	
Campaign Against Child Poverty	
Arthur Bielfeld, Rabbi of Temple Emanu-El, Member of the Steering Committee	
June Callwood, Order of Canada, Member of the Steering Committee	
Caroline Di Giovanni, Member of the Steering Committee	
Canadian Association for Community Living	
Dick Calkins, Vice-President	
Connie Laurin-Bowie, Coordinator, Government Liaison	
Canadian Association of Food Banks	
Sue Cox, Vice-Chair	
Alexandra Humphrey, Board Member, Daily Bread Food Bank	
Canadian Association of Retired Persons	
Bill Gleberzon, Assistant Executive Director	
Canadian Auto Workers Union	
Basil (Buzz) Hargrove, President	
Jim Stanford, Economist	

Associations and Individuals	Date
Canadian Bankers' Association	Thursday, October 15, 1998
Ron Friesen, Chair, Taxation Committee (Vice-President, Taxation, Bank of Montreal)	
Mark Weseluck, Vice-President Banking Operations	
Canadian Institute of Mortgage Brokers and Lenders	
Michael Ellenzweig, Chairman	
A.D. (Ric) McGratten, Vice-Chair, Government Relations Committee	
Canadian Living Foundation	
Martha O'Connor, Executive Director	
Canadian Tax Foundation	
Robin MacKnight, Director	
Chamber of Commerce of Kitchener-Waterloo	
Linda Korgemets, C.A., Chairperson, Taxation Sub-Committee of the Federal and Provincial Affairs Committee	
Childcare Resource and Research Unit	
Martha Friendly, Coordinator and Adjunct Professor	
Citizens for Public Justice	
Greg DeGroot-Maggetti, Policy Researcher	
Harry Kits, Executive Director	
Gerald Vandezande, National Public Affairs Director	
College of Dental Hygienists of Ontario	
Evie Jesin, President	
Peter Landry, Advisor	
Committee on Monetary and Economic Reform	
William Krehm, Chairman	

Associations and Individuals	Date
Dundee Bancorp Inc.	Thursday, October 15, 1998
Donald K. Charter, Executive Vice-President	
Garth MacRae, Vice-Chair	
Employee Share Ownership Plan Association	
Perry Phillips, Member of the Board	
Fay Wu, Vice-President, Finance, Castek Software Factory	
Employer Committee on Health Care — Ontario	
Vic Clive, Assistant Vice-President, Human Resources, Canada Trust	
Gretchen Van Riesen, Director, Pensions and Benefits Policy at CIBC	
Georgian Bancorp Inc.	
Attila Lendvai, Strategy and Communications	
Sinclair Stevens, Chairman	
Growing Up Healthy Downtown	
Karen Serwonka, Project Co-ordinator	
International Union of Operating Engineers, Local 793	
Joe Fashion, Business Manager, International Brotherhood of Electrical Workers, Local 353	
Micross Fur Canada Inc.	
Sydney Sokoloff, Owner	
Ontario Chiropractic Association	
David Chapman-Smith, General Counsel	
Robert Haig, Director, Government Affairs	
Lloyd Taylor, Queen's Park Representative	
Ontario Hospital Association	
David MacKinnon, President	

Associations and Individuals	Date
Ontario Public Health Association	Thursday, October 15, 1998
Brian Hyndman, President	
Debbie Sheehan, Co-Chair, Child Health Work Group	
University of Toronto	
J. Robert S. Prichard, President	
Chris Ramsaroop, President, Student Administrative Council	
Walker Chocolate Company Ltd.	
Harry Walker, President	
As Individual	
Deborah Kusturin	
"Association culturelle franco-canadienne de la Saskatchewan"	Monday, October 19, 1998
Lorraine Archambault, President	
Immigrant Women Society	
Bozana Cosic, Acting Executive Director	
Judy Kobsar, President	
Prairie Pools Inc.	
Mitchell Demyen, Policy and Economic Division	
Marvin Shauf, Vice-Chairman	
Saskatchewan School Trustees Association	
Craig Melvin, Executive Director	
Debbie Ward, President	
University of Regina	
Marjorie Brown, President, Graduate Students Association	
As Individuals	
Archie G. Buckmaster, Consultant in Manufacturing, Engineering and Management	

Associations and Individuals	Date
Louis Delbaere, Head of Biochemistry, University of Saskatchewan and MRC Regional Director	
Andrew Gloster, Cameco MS Neuroscience Research Centre, Saskatoon City Hospital	
Valerie M.K. Verge, Cameco MS Neuroscience Research Centre, Saskatoon City Hospital	
Federation of New Brunswick Faculty Associations	Tuesday, October 20, 1998
John Thompson, Past President and Member of the Board and Chair of the Mathematics Dept. at the University of New Brunswick	
Jack Vanderlind, Vice-President	
Group of 12 for Social Justice	
Isabelle Doucet	
New Brunswick Chamber of Commerce	
Bill McMackin, President	
New Brunswick Student Alliance	
Anthony Knight, President	
Newfoundland and Labrador School Board Association	
Myrle Vokey, Executive Director	
Saint John Board of Trade	
Michael Murphy, Chairman, Pre-Budget Task Force	
Gary Smith, Vice-President	
ALERT	Wednesday, October 21, 1998
Brian Curley, Member	
Deanna Duguay, Member	
Atlantic Veterinary College, University of P.E.I.	
Ian Dohoo, Associate Dean, Graduate Studies and Research	

Associations and Individuals	Date
Brandon University	Wednesday, October 21, 1998
C. Dennis Anderson, President	
Canadian Association of the Non-Employed	
Robert Johannson	
Carol Loveridge	
Canadian Federation of Students — Manitoba Component	
Kemlin Nembhard, Field Worker	
Choices Manitoba Social Justice Coalition	
George Harris	
Council of Canadians	
Leo Broderick, Member of the Board of Directors	
Council of Canadians with Disabilities	
Laurie Beachell, National Co-ordinator	
"Fédération des parents de l'Île-du-Prince-Édouard"	
Marie-Berthe Losier, Worker	
Ulysse Robichaud, President	
Greater Charlottetown Area Chamber of Commerce	
Steve Loggie, Chair, Policy Committee	
Shawn Murphy, Past-President	
Infrastructure Council of Manitoba	
Chris Lorenc, President	
Dave Harrison, Chairman of the Board	
Jacks Institute	
Evelyn Jacks, President	
Manitoba Association of School Trustees	
Jerry B. MacNeil, Executive Director	
Len Schieman, President	

Associations and Individuals	Date
Manitoba Federation of Labour	Wednesday, October 21, 1998
John Doyle, Researcher	
Rob Hilliard, President	
Manitoba Federation of Union Retirees	
Albert Cerilli, President, Member at large, Congress Union Retiree of Canada	
Manitoba Medical Research Council	
Gary Glavin, Regional Director of Medical Research Council of Canada	
Medical Society of P.E.I.	
Rosemary Henderson, President	
Official Opposition of P.E.I. (Liberal Party of P.E.I.)	
Robert Morrissey, MLA, Finance Critic	
P.E.I. Advisory Council on the Status of Women	
Sharon O'Brien, Chair	
P.E.I. Federation of Agriculture	
Mette Ching, President	
Lisa Dennis, Policy Analyst	
P.E.I. Fishermen's Association Ltd.	
Rory McLellan, General Manager	
Donnie Strongman, President	
P.E.I. Health Coalition and P.E.I. Action Canada Network	
Mary Boyd, Representative	
P.E.I. Literacy Alliance	
Lillian Mead, Adult Learner Representative	
Dianne Morrow, Executive Director	
Liz Nimmo, Chair	
P.E.I. New Democratic Party	
Dave Barrett, Office Coordinator	

Associations and Individuals	Date
P.E.I. Union of Public Service Employees	Wednesday, October 21, 1998
Mike Butler, President	
Public Service Alliance of Canada	
Mary MacNeil, Regional Representative for PEI and NB	
Ramboc Enterprises	
Tom Struthers, President and Owner	
Shamray Group	
Michael Shamray, President	
Union of Manitoba Municipalities	
Wayne Motheral, Vice-President	
Jack Nicol, President	
University of P.E.I.	
Lawrence E. Heider, Acting President	
Neil Henry, Vice-President, Finance and Facilities	
As Individual	
Edith Perry, Plant worker and community activist	
Canadian Association of the Non-Employed	Thursday, October 22, 1998
Robert Johannson	
"Association canadienne-française pour l'avancement des sciences"	Monday, October 26, 1998
Germain Godbout, General Director	
Association of Canadian Community Colleges	
Gerry Brown, President	
Pierre Killeen, Government Relations Officer, National Services ACCC	
Association of Universities and Colleges of Canada	
Robert J. Giroux, President	

Associations and Individuals	Date
Canadian Alliance of Student Associations	Monday, October 26, 1998
Hoops Harrison, National Director	
Martin Simard, Communications Officer	
Canadian Association of University Teachers	
Robert Léger, Senior Policy Analyst, Research/Lobbying	
Canadian Consortium for Research	
John C. Service, Ph.D., Chair	
Canadian Federation of Students — National Graduate Council	
Joy Morris	
Canadian Federation of Students — National Office	
Elizabeth Carlyle, National Chairperson	
Canadian Graduate Council	
Rubina Ramji, Chair	
Canadian Real Estate Association	
Pierre Beauchamp, Chief Executive Officer	
Gregory Klump, Senior Economist	
Humanities and Social Sciences Federation	
Louise Robert, General Director	
Pineridge Ford Mercury	Tuesday, October 27, 1998
Doug Heeney, Ford Motor Company Dealer, Co-Chair, Customer Service, National Action Team	
Canadian Cardiovascular Society	Wednesday, October 28, 1998
Michael Baird, Secretary	
Charles A. Shields, Jr., Executive Director	
Coalition for Biomedical and Health Research	
Clément Gauthier, Executive Director	
Barry D. McLennan, President	

Associations and Individuals	Date
Council for Health Research in Canada	Wednesday, October 28, 1998
Peter A.R. Glynn, Member, Executive Committee, President and CEO, Kingston General Hospital	
Mark Poznansky, Chairman, Scientific Director, The John P. Robbarts Research Inst.	
Medical Research Council of Canada	
Henry Friesen, President	
National Cancer Institute of Canada	
Dorothy Lamont, CEO of the NCIC and of the Canadian Cancer Society	
Robert Phillips, Executive Director	
Social Sciences and Humanities Research Council of Canada	
Marc Renaud, President	
As Individuals	
Rick Egelton, Vice-President and Deputy Chief Economist, Bank of Montreal	
Maureen Farrow, Head Economist, Loewen Ondataatje McCutcheon	
Pierre Fortin, University of Quebec in Montreal	
William Robson, CD Howe Institute	
David Rosenberg, Vice-President and Senior Economist, Nesbit Burns	
Thomas A. Wilson, Institute for Policy Analysis, University of Toronto	
Bloc Québécois	Friday, October 30, 1998
Odina Desrochers, M.P.	
Gilles Duceppe, Party Leader	
Yvon Loubier, Financial Critic	
Canadian Association of Independent Living Centres	
Tracey Walters, National Director	

Associations and Individuals	Date
Canadian Co-operative Association	Friday, October 30, 1998
Mary Pat MacKinnon, Director, Policy, Government Affairs	
Nora Sobolov, Chief Executive Officer	
Canadian Heritage Foundation	
Brian Anthony, Executive Director	
Canadian National	
Thi Nguyen, President, Canadian Employee Relocation Council	
Scott Roberts, Assistant Vice-President, Government Affairs	
Canadian Trucking Alliance	
David Bradley, Chief Executive Officer	
Graham Cooper, Senior Vice-President	
Childcare Advocacy Association	
Kim Rudd, Board Member	
Goldstein and Goldstein	
Sidney Goldstein, Lawyer	
T-Base Communications Inc.	
Sharlyn Ayotte, President and CEO	
Leonard J. Fowler Jr.	
Alliance of Manufacturers and Exporters of Quebec	Monday, November 2, 1998
Manuel Dussault, Director, Research and Analysis	
Alliance Quebec	
Harold Chorney, Chairman of the Board	
Canadian Federation of Students — Quebec Component	
Holly Baines, Vice-President Local 19	
Deborah Murray, Quebec Representative to the Executive	

Associations and Individuals	Date
Canadian Pulp and Paper Association	Monday, November 2, 1998
Lise Lachapelle, President and CEO	
Steve Stinson, Director, Finance and Business Issues	
Chamber of Commerce of Metropolitain Montreal	
Pierre Laflamme, Chair, Committee on Public Finances	
François Roberge, Director, Public Affairs and Communications	
Chamber of Commerce of Quebec	
Michel Audet	
Robert Demers, Associate, Samson, Bélair, Deloitte and Touche	
Maurice Turgeon, Consultant	
"Chambre de commerce régionale de Sainte-Foy"	
Lise Bergeron, President	
François Boulay, "Office du tourisme et des congrès CUQ"	
Clinical Research Institute of Montreal	
Rafik-Pierre Sékaly, Director, Research Centre in Immunology	
Louise B. Vaillancourt, Vice-President	
"Confédération des caisses populaires et d'économie Desjardins du Québec"	
Yves Morency, Secretary, Governmental Relations	
Gilles Soucy, Chief Economist	
Confederation of National Trade Unions	
Peter Bakvis, Assistant, Executive Committee	
Gérald Larose, President	
Raymonde Leblanc, Union Advisor	

Associations and Individuals	Date
"Conférence des Régies régionales de la santé et des services sociaux du Québec"	Monday, November 2, 1998
Guylaine Chabot, Director, Communications	
Paulin Dumas, Executive Vice-President	
"Conseil du patronat du Québec"	
Jacques Garon, Director of Research and Economist	
Gilles Taillon, President	
Consortium Promecan Inc.	
Jean-Claude Croft, Manager	
Development and Peace — Canadian Catholic Organization for Development and Peace	
Jacques Bertrand, Research and Advocacy, Communications and Research Department	
Jean-Claude Le Vasseur, President, National Council	
"Fédération étudiante collégiale du Québec"	
Mathieu Painchaud, Research Coordinator	
"Fédération étudiante universitaire du Québec"	
Pascal Bérubé, Vice-President	
Alexis Boyer-Lafontaine, Coordinator, Socio-Political Research	
"Groupe Action populaire"	
Bernard Côté	
Montreal Neurological Institute and Hospital	
Barry Posnar, Professor	
John A. Robson, Associate Director, Research Affairs, McGill University	
Project Genesis	
Alice Herscovitch	
Gary Saxe	

Associations and Individuals	Date
Quebec Federation of Senior Citizens	Monday, November 2, 1998
François Legault, President	
Nicole T. Moir, Executive Director	
As Individual	
Sid Ingerman, Instructor, Labour College of Canada and Retired Professor of Economics at McGill University	
Hugh Rowe, Financial Advisor, DPM Securities Inc.	
Alliance of Manufacturers and Exporters Canada	Monday, November 16, 1998
John Allinotte, Chair, Ontario Taxation Committee	
Joanne McGovern, Director, Taxation and Ontario Environment Policy	
Jayson Myers, Senior Vice-President and Chief Economist	
Canadian Aquaculture Industry Alliance	
Brenda Dunbar, Executive Director	
Pierre Stang, Program Coordinator	
Canadian Association of Petroleum Producers	
David Manning, President	
Greg Stringham, Vice-President, Markets and Fiscal Policy	
Canadian Association of Speech-Language Pathologies and Audiologies	
Keith Christopher, Executive Director	
Sandra Short, Consumer representative	
Canadian Automobile Dealers Association	
Richard Gauthier, President	
Huw Williams, Director, Public Affairs	
Canadian Construction Association	
Michael Atkinson, President	
Willard Kirkpatrick, Chairman of the Board	
Katia Strongolos, Chairman, Finance Committee	

Associations and Individuals	Date
Canadian Federation of Apartment Associates Tex Enemark, Chairman, Tax Committee **Canadian Home Care Association** Phil Gaudet, President Lesley Larsen, Executive Director **Canadian Institute of Planners** Patrick Déoux, President Lise Newton-Lalonde, Executive Director **Canadian School Boards Association** Marie Pierce, Executive Director L.J. Roy Wilson, President **Canadian Teachers' Federation** John Staple, Director, Economic Services Harvey Weiner, Acting Secretary General **Employee Share Ownership and Investment Association** Julia Markus, Executive Director **Federation of Canadian Software Developers** Nathan Nifco, President and CEO, Nifco Synergy Larry Whitehead, President and CEO, Columbia Diversified Software Sheldon S. Wiseman, President and CEO, Amberwood Productions Inc. **Greenpeace** Steven Guilbeault, Officer in Charge, Climate and Energy Campaign **Multi-Employer Benefit Plan Council of Canada** William (Bill) Anderson, President and Benefit Plan Administrator Joseph Maloney, Building and Construction Trades Department AFL-CIB	Monday, November 16, 1998

Associations and Individuals	Date
Multiple Sclerosis Society of Canada	Monday, November 16, 1998
Nickie Cassidy, National Social Action Volunteer	
National Action Committee on the Status of Women	
Joan Grant-Cummings, President	
National Aluminium Association	
Jean-Marc Crevier, President	
University of Western Ontario	
Robert McMurty, Dean, Faculty of Medicine and Dentistry	
World Vision Canada	
Kathy Vandergrift, Senior Policy Officer	
Canadian Automobile Association	Tuesday, November 17, 1998
Jody Ciufo, Manager, Public and Government Affairs	
Elly Meister, Vice-President, Public Affairs and Communications	
Canadian Chamber of Commerce	
Nancy Hughes Anthony, President and CEO	
Don McIver, Chief Economist, Sun Life Insurance Company of Canada	
Canadian Federation of Independent Business	
Pierre Cléroux, Vice-President, Quebec	
Catherine Swift, President and CEO	
Garth Whyte, Vice-President, National Affairs	
Canadian Jewellers Association	
Pierre Akkelian, Past President	
Michael Birchard, President, Canadian Watch Association	
H. Jonathan Birks, First Vice-President	
Canadian Parents for French	
Carole Barton, President	
Joan Netten, Vice-President	

Associations and Individuals	Date
Canadian Restaurant and Foodservices Association	Tuesday, November 17, 1998
Jill Holroyd, Director of Research and Communications	
Joyce Reynolds, Senior Director, Government Affairs	
Canadian Taxpayers' Federation	
Walter Robinson, Federal Director	
Carpenters and Allied Workers Local 27	
Richard J. Mahoney, Partner, Fraser Milner, Barristers and Solicitors	
Dan McCarthy, Director of Research and Programs	
Eddie Thornton, Executive Director	
College of Family Physicians of Canada	
Jacques Lemelin, Associate professor, Department of Family Medicine, University of Ottawa	
Conference Board of Canada	
Paul Darby, Director, Economist Services	
Don't Tax Reading Coalition	
David Hunt, National Coordinator	
Jacqueline Hushion, Chairperson	
Ducks Unlimited Canada	
Don Young, Executive Vice-President	
Economic Community Starting Centre: Job Creation Inc.	
Monique Bokya-Lokumo, Ph.D., Teacher, Agency Director and Community Organizer	
Juvenile Diabetes Foundation Canada	
Elizabeth J. Braden, Director, Personal Giving	
Alan Patt, Vice-President	

Associations and Individuals	Date
National Research Council Canada	Tuesday, November 17, 1998
Arthur J. Carty, President	
Natural Sciences and Engineering Research Council of Canada	
Thomas A. Brzustowski, President	
Nature Conservancy Canada	
James Duncan, Director, Property Securement, Corporate Policy and Stewardship	
John Lounds, Executive Director	
Nuclear Awareness Project	
David H. Martin, Research Director	
Retirement Income Coalition	
Malcolm Hamilton, Member	
C.A.(Charlie) Pielsticker, Chair	
University of Toronto	
Peter Dungan, Associate Professor of Economics P.E.A.P., Institute for Policy Analysis	
As Individual	
Dale Orr, Senior Vice-President, WEFA Canada Inc.	

APPENDIX C
LIST OF SUBMISSIONS

32 Hours: Action for Full Employment

Acadia Students' Union

Action Canada for Population and Development

Ad Hoc Working Group on Budget Alternatives

Advanced Education Council of British Columbia

Aerospace Industries Association of Canada

Air Transport Association of Canada

Alberta Association of Registered Nurses

Alberta Federation of Labour

Alberta Roadbuilders and Heavy Construction Association

Alberta School Boards Association

Alberta Teacher's Association

ALERT

Alliance of Manufacturers & Exporters Canada

Alliance of Manufacturers & Exporters of Quebec

Alliance Quebec

Amalgamated Transit Union—Canadian Council

Mark Anielski

Anti-Poverty Network Halifax

"Association acadienne des artistes professionnel.le.s du Nouveau-Brunswick"

"Association canadienne-française de l'Alberta"

"Association culturelle franco-canadienne de la Saskatchewan"

"Association des producteurs de films et de télévision du Québec (APFTQ)"

Association of Canadian Community Colleges

Association of Canadian Pension Management

Association of Canadian Publishers

Association of Universities and Colleges of Canada

Atlantic Popular Education Network

Atlantic Veterinary College, University of P.E.I.

Automotive Industries Association of Canada

B.C. Federation of Labour

Bank of Canada

BCTEL Taxes Department

BDO Dunwoody, Chartered Accountants

Board of Trade of Metropolitan Toronto

Brandon University

British Columbia Business Council

British Columbia School of Trustees Association

British Columbia Teachers' Federation

Darrell Brown

Building and Construction Trades Department

Business Council on National Issues

C.D. Howe Institute

CAE Inc.

Judy Caldwell

Calgary Chamber of Commerce

Campaign 2000

Campaign Against Child Poverty

Canada Family Action Coalition

Canada Foundation for Innovation

Canadian Academy of Engineering

Canadian Alliance of Student Associations

Canadian Aquaculture Industry Alliance

Canadian Association for Community Living

Canadian Association for University Continuing Education

Canadian Association of Broadcasters

Canadian Association of Food Banks

Canadian Association of Gift Planners

Canadian Association of Insurance and Financial Advisors

Canadian Association of Petroleum Producers

Canadian Association of Retired Persons

Canadian Association of Student Financial Aid Administrators

Canadian Association of the Non-Employed

Canadian Association of University Teachers

Canadian Automobile Association

Canadian Automobile Dealers Association

Canadian Automotive Repair and Service Institute

Canadian Bankers' Association

Canadian Cancer Society

Canadian Cardiovascular Society

Canadian Centre for Philanthropy

Canadian Centre for Policy Alternatives

Canadian Chamber of Commerce

Canadian Chemical Producers' Association

Canadian Co-operative Association

Canadian Conference of the Arts

Canadian Consortium for Research

Canadian Construction Association

Canadian Council for International Co-operation

Canadian Council on Social Development

Canadian Dehydration Association

Canadian Dental Association

Canadian Electricity Association

Canadian Employee Relocation Council

Canadian Federation of Agriculture

Canadian Federation of Apartment Associates

Canadian Federation of Independent Business

Canadian Federation of Students — National Graduate Council

Canadian Federation of Students — British Columbia Component

Canadian Federation of Students — Manitoba Component

Canadian Federation of Students — Nova Scotia Component

Canadian Federation of Students — Quebec Component

Canadian Film and Television Production Association

Canadian Gas Association

Canadian Gift & Tableware Association

Canadian Hardware and Housewares Manufacturers Association

Canadian Healthcare Association

Canadian Home Builders' Association

Canadian Home Care Association

Canadian Housing and Renewal Association

Canadian Institute of Child Health

Canadian Institute of Planners

Canadian Jewellers Association

Canadian Labour Congress

Canadian Living Foundation

Canadian Medical Association

Canadian Museums Association

Canadian National

Canadian National Institute for the Blind

Canadian Nurses Association

Canadian Office Products Association

Canadian Parents for French

Canadian Pensioners Concerned

Canadian Printing Industries Association

Canadian Professional Sales Association

Canadian Pulp and Paper Association

Canadian Real Estate Association

Canadian Restaurant and Foodservices Association

Canadian Retail Building Supply Council

Canadian School Boards Association

Canadian Steel Producers' Association

Canadian Tax Foundation

Canadian Taxpayers' Federation

Canadian Teachers' Federation

Canadian Trucking Alliance

Canadian Union of Public Employees

Canadian Vehicle Manufacturers' Association

Canadian Worker Co-operative Federation

Canmore Centennial Museum Society

Carpenters and Allied Workers Local 27

Certified General Accountants' Association of Canada

Chamber of Commerce of Kitchener-Waterloo

Chamber of Commerce of Quebec

"Chambre de commerce régionale de Sainte-Foy"

Childcare Resource and Research Unit

Choices Manitoba Social Justice Coalition

Citizens for Public Justice

Clinical Research Institute of Montreal

Coal Association of Canada

Coalition for Biomedical and Health Research

Coalition for Equality

Coalition of National Voluntary Organizations

Coalition to Renew Canada's Infrastructure

College Institute Educators' Association of B.C.

College of Dental Hygienists of Ontario

College of Family Physicians of Canada

"Confédération des caisses populaires et d'économie Desjardins du Québec"

Confederation of Alberta Faculty Associations

Confederation of National Trade Unions

Confederation of University Faculty Associations of British Columbia

Conference Board of Canada

Conference of Defence Associations

"Conseil canadien de la coopération"

"Conseil du patronat du Québec"

Consortium Promecan Inc.

Council for Health Research in Canada

Council of Canadians with Disabilities

Crop Protection Institute

Cultural Human Resources Council

Dalhousie University

Louis Delbaere

Development and Peace — Canadian Catholic Organization for Development and Peace

Don't Tax Reading Coalition

Ducks Unlimited Canada

Dundee Bancorp Inc.

Economic Community Starting Centre: Job Creation Inc.

Ecumenical Coalition for Economic Justice

Emmanuel House

Employee Share Ownership & Investment Association

Employee Share Ownership Plan Association

Employer Committee on Health Care — Ontario

End Legislated Poverty

"Fédération des francophones de la Colombie-Britannique"

"Fédération des infirmières et infirmiers du Québec"

"Fédération des parents de l'Île-du-Prince-Édouard"

"Fédération étudiante collégiale du Québec"

"Fédération étudiante universitaire du Québec"

Federation of Canadian Municipalities

Federation of Canadian Software Developers

Federation of New Brunswick Faculty Associations

Financial Executives Institute Canada

Fisheries Council of Canada

Forwell Super Variety of Waterloo Ltd.

Fredericton Area Network Inc.

Georgian Bancorp Inc.

Greater Charlottetown Area Chamber of Commerce

Greenpeace

Group of 12 for Social Justice

Herbert Grubel

Keith & Susan Harrison

HEAL — Health Action Lobby

Health Sciences Association of Alberta

Heart and Stroke Foundation of Canada

Hospital Employees' Union

Hotel Association of Canada

Humanities and Social Sciences Federation

IBM (Canada)

Immigrant Women Society

Independent Insurance Brokers Association of Alberta

Independent Living Resource Centre

Information Technology Association of Canada

Infrastructure Council of Manitoba

Sid Ingerman

International Association of Fire Fighters

International Union of Operating Engineers, Local 793

Investment Funds Institute of Canada

Jacks Institute

Juvenile Diabetes Foundation Canada

Kids First, Parent Association of Canada

Henry Koop

Deborah Kusturin

Labour Sponsored Investment Funds Alliance

J. V. Laken

Laurier Institution

Learning Disabilities Association of Canada

Let's Talk Science

Manitoba Association of School Trustees

Manitoba Federation of Union Retirees

Barry Marquardson

McGill University

Sarah McKnight

Medical Research Council of Canada

Medical Society of P.E.I.

Merck Frosst Canada Inc.

Metropolitan Halifax Chamber of Commerce

Mining Association of Canada

Montreal Neurological Institute and Hospital

Multi-Employer Benefit Plan Council of Canada

National Action Committee on the Status of Women

National Aluminium Association

National Anti-Poverty Organization — Public Interest Advocacy Centre

National Association of Women and the Law

National Cancer Research Institute

National Children's Alliance

National Council of Women of Canada

National Federation of Nurses' Unions

National Research Council Canada

National Round Table on the Environment and the Economy

National Task Force to Promote Employer Provided, Tax Exempt Transit Passes

National Voluntary Organizations

Natural Sciences and Engineering Research Council of Canada

Nature Conservancy Canada

Nesbitt Burns

New Brunswick Chamber of Commerce

New Brunswick Federation of Labour

New Brunswick Student Alliance

New Democratic Party of Nova Scotia

Newfoundland and Labrador Federation of Labour

Newfoundland and Labrador Federation of Students

Newfoundland and Labrador School Board Association

Nortel (Northern Telecom)

North-South Institute

Nova Scotia Advisory Council on the Status of Women

Nova Scotia Federation of Labour

Nova Scotia Government Employees Union

Nuclear Awareness Project

Official Opposition of P.E.I. (Liberal Party of P.E.I.)

Ontario Chiropractic Association

Ontario Coalition of Senior Citizens' Organizations

Ontario Federation of Agriculture

Ontario Hospital Association

Ontario Municipal Employees Retirement System

Ontario Professional Fire Fighters Association

Ontario Public Health Association

Dale Orr

Philip Owen

P.E.I. Advisory Council on the Status of Women

P.E.I. Federation of Agriculture

P.E.I. Literacy Alliance

P.E.I. New Democratic Party

Partnership Group in Science and Engineering

Peter Wilde and David Yuill — Chartered Accountants

Pharmaceutical Manufacturers Association of Canada

Pineridge Ford Mercury

Prairie Pools Inc.

Pridamor Group

Prince Edward Island Road Builders and Heavy Construction Association

Project Genesis

Public Perspectives Inc.

Public Service Alliance of Canada

Quebec Federation of Senior Citizens

Railway Association of Canada

Ramboc Enterprises

"Regroupement des intervenantes et intervenants francophones en santé et en services sociaux de l'Ontario"

Rental Housing Council of B.C.

Results Canada

Retirement Income Coalition

Hugh Rowe

RRSP Alliance

Saint John Board of Trade

Saint Mary's University

Braise Salmon

Saskatchewan School Trustees Association

Saskatchewan Wheat Pool

Sierra Club of Canada

Beverly Smith

Social Planning and Research Council of British Columbia

Social Sciences and Humanities Research Council of Canada

St. John's Board of Trade

Albert L. Stal

Stella Burry Corporation

Stentor Telecom Policy Inc.

Suncor Energy Inc.

T-Base Communications Inc.

Technical Committee on Business Taxation

"Tourisme Montréal"

TransCanada PipeLines

Union of Manitoba Municipalities

United Nurses of Alberta

United Steelworkers of America

University of Calgary

University of P.E.I.

University of Regina

Vancouver Board of Trade

War Amps

Peter Wilde

Thomas Wilson

Women's Network P.E.I.

World Vision Canada

Writers' Union of Canada

APPENDIX D

MEMBERS OF PARLIAMENT

WHO HELD TOWNHALL MEETINGS ON PRE-BUDGET CONSULTATIONS

Peter Adams	(Peterborough, ON)
Hélène Alarie	(Louis-Hébert, QC)
Carolyn Bennett	(St.Paul's, ON)
Stéphane Bergeron	(Verchères, QC)
Maurizio Bevilacqua	(Vaughan—King—Aurora, ON)
Bernard Bigras	(Rosemont, QC)
Paul Bonwick	(Simcoe—Grey, ON)
Claudette Bradshaw	(Moncton—Riverview—Dieppe, NB)
Sarmite Bulte	(Parkdale—High Park, ON)
Elinor Caplan	(Thornhill, ON)
Brenda Chamberlain	(Guelph—Wellington, ON)
Hec Clouthier	(Renfrew—Nipissing—Pembroke, ON)
Paul Crête	(Kamouraska—Rivière-du-Loup—Témiscouata—Les Basques, QC)
Madeleine Dalphond-Guiral	(Laval-Centre, QC)
Pierre de Savoye	(Portneuf, QC)
Maud Debien	(Laval-East, QC)
Odina Desrochers	(Lotbinière, QC)
Paul DeVillers	(Simcoe North, ON)
Antoine Dubé	(Lévis, QC)
Gilles Duceppe	(Laurier—Sainte-Marie, QC)
Christiane Gagnon	(Québec, QC)
Michel Gauthier	(Roberval, QC)
Jocelyne Girard-Bujold	(Jonquière, QC)
Hon. Ralph Goodale, P.C.	(Wascana, SK)
Ivan Grose	(Oshawa, ON)
Monique Guay	(Laurentides, QC)
Michel Guimond	(Beauport—Montmorency—Orléans, QC)
Francine Lalonde	(Mercier, QC)
Ghislain Lebel	(Chambly, QC)
Réjean Lefebvre	(Champlain, QC)
Yvan Loubier	(Saint-Hyacinthe—Bagot, QC)
Steve Mahoney	(Mississauga West, ON)
Richard Marceau	(Charlesbourg, QC)
Jean-Paul Marchand	(Québec East, QC)
Hon. Paul Martin, P.C.	(LaSalle—Émard, QC)

Paul Mercier	(Terrebonne—Blainville, QC)
Hon. Andy Mitchell, P.C.	(Parry Sound—Muskoka, ON)
Gilles-A. Perron	(Saint-Eustache—Sainte-Thérèse, QC)
Pauline Picard	(Drummond, QC)
Gary Pillitteri	(Niagara Falls, ON)
George Proud	(Hillsborough, PEI)
Karen Redman	(Kitchener Centre, ON)
Yves Rocheleau	(Trois-Rivières, QC)
Caroline St-Hilaire	(Longueuil, QC)
Hon. Jane Stewart, P.C.	(Brant, ON)
Paul Szabo	(Mississauga South, ON)
Paddy Torsney	(Burlington, ON)
Stéphan Tremblay	(Lac-Saint-Jean, QC)
Suzanne Tremblay	(Rimouski—Mitis, QC)
Susan Whelan	(Essex, ON)
Ted White	(North Vancouver, BC)

APPENDIX E

Dissenting Opinion — Official Opposition (Reform Party)

The Official Opposition will be expanding on all of our budgetary recommendations in our complete pre-budget submission to the Finance Minister next month

Introduction: Canada's declining productivity levels are the direct result of a generation of largely Liberal government policies that resulted in high levels of spending, debt and taxes. Even their balanced budget was achieved at the expense of our productivity as a nation. A full 76.7% of the balanced budget was achieved through higher tax revenues, 14% from slashing health and social transfers, 7.2% from cutting transfers to persons, and a tiny 2.1% from cuts in their own spending. The net result is sinking productivity levels that have been only temporarily masked in recent years by our plummeting dollar.

By cutting deeply into our health care system instead of getting their own spending in order, the government demonstrated a willingness to put their own interests before those of our most vulnerable Canadians.

In their pre-budget report the government has skated over obvious solutions to our productivity problem. Solutions such as deep reductions in employment insurance premiums, personal income taxes and capital gains taxes. Instead, ironically, they have called for a new government program, ostensibly to be staffed by bureaucrats who will decide whether government initiatives contribute to making our workforce more productive. So convinced are they of the importance of the initiative that they have used biblical language to describe it. While the Official Opposition congratulates the government on their apparent conversion experience, we remain highly skeptical that the Liberal government can teach the private sector anything about productivity. We oppose the idea of a "productivity covenant" and opt for a more direct solution, joining Canadians who say we must "cut taxes now."

HEALTH CARE: A nation can't expect to be productive when it's labor force is waiting in a hospital line for a hip replacement or heart surgery. One hundred eighty-eight thousand people are on hospital waiting lists — a direct result of the government slashing billions in

health care transfers. This government deliberately chose to balance their books by hiking taxes and slashing health care transfers. It is urgent that the damage they inflicted is immediately reversed in the health care sector.

> **The government should move immediately to restore health care services by reallocating out of existing expenditures a minimum of $2 billion in new health transfers to the provinces.**

TAXES: The Official Opposition believes the government has run out of excuses for not giving taxpayers significant broad-based tax relief now. Their six-month surplus of $10.4 billion betrays their position that the cupboard is still too bare for major tax relief. Any government that claims to have Canada's productivity concerns at heart has to understand the damage done by tax levels that are so high they've become a disincentive for investment, innovation and economic growth.

Canadians suffer from the highest personal income tax burden in the G-7. Since 1993 federal income tax revenues have increased 38%, and corporate tax revenues have gone up by 139%. Today Ottawa takes 17.2% of GDP for itself, up from 16.2% in 1993. No wonder Canadians are suffering from sinking disposable incomes. To find the cause, they need look no further than their own government in Ottawa.

Productivity is not improved by just talking about it, even in biblical language. Productivity will be improved by lowering high taxes. But lowering one tax and raising another cannot be regarded as a tax cut. This was the government's position when they lowered employment insurance premiums last year for employees by 20 cents/$100 and raised CPP premiums by 20 cents/$100. In the coming year, we will see employment insurance premiums lowered by 15 cents/$100, while CPP goes up again by 30 cents/$100, so the overall payroll tax burden has increased. They again assumed this stance in arguing that reducing the 3% surtax would leave $900 million more in taxpayers pockets, while failing to mention that bracket creep would remove $1.1 billion from their pockets. Instead, Canadians need sweeping tax relief that leaves them with more money in their pockets.

> **Speaking of across-the-board tax cuts, Mr. Chrétien said: "I don't think it is the right thing to do in a society like Canada."** — *Globe and Mail*, October 22, 1996

Unlike Prime Minister Chrétien and his government, the Official Opposition believes that lowering the tax burden for overstressed Canadians is precisely the right thing to do in a society like Canada. And unlike this government which talks a lot about the issue but has delivered very little in real tax relief, we're prepared to make it a top budgetary priority by dedicating 50% of any budgetary surpluses to immediate tax relief.

> **The Official Opposition believes the government should immediately commit to a substantial across-the-board reduction in tax levels for Canadians, starting with:**

FAMILY-FRIENDLY TAX CHANGES: This government continues to maintain a tax system that discriminates against families. If this government were truly committed to improving the productivity of our future labour force, they would stop maintaining a tax system that discourages the most stable social program there is — a strong family.

> **As an interim measure, the Official Opposition recommends removing some of these discriminatory practices in our tax system by converting the child care expense deduction to a credit and extending it to all parents and equalizing spousal exemptions to the personal exemption.**

In addition, some witnesses put forth ideas for family income splitting and independent RRSPs for homemakers. The Official Opposition would like the government to examine these proposals and others in order to develop family friendly tax policies.

PERSONAL INCOME TAXES: The growing brain drain in our country is a stinging indictment of how our high tax levels are damaging Canada's productivity as a nation. This government's high income tax levels are directly responsible for turning an entire generation of our best, brightest and most productive workers into economic refugees fleeing for the lower tax regime of the United States. Just as it is important to educate and train our future labour force, it is equally important to keep them here when they enter their productive years in the workforce. That requires tax levels that encourage people to stay in Canada and businesses to grow and innovate.

> **The Official Opposition recommends that the government examine the following options:**

- **Reducing statutory rates — the Canadian Taxpayers Federation recommended a 2% drop in each of the tax rates to 15%, 24% and 27%, effective for the 1999 taxation year.**
- **Increase the basic personal exemption for all taxpayers to $7,900.**
- **Reinstate indexation of the income tax system. Bracket creep has taken over $14 billion in extra taxes since 1993 — something the OECD has identified as having been directly responsible for pushing a full 18% of taxfilers either onto the tax system or into higher tax brackets.**

CAPITAL GAINS: Evidence is clear about the dampening effects of high capital gains taxes on a nation's economic growth — particularly in areas of innovation. If this government was truly committed to improving the productivity of our nation they would move quickly towards significantly reducing this productivity killing tax.

> **The Official Opposition recommends that the government explore options for an immediate reduction in the effective capital gains tax and provide the**

over 800,000 Canadians (59% of whom earn less than $50,000 a year) with an incentive to continue investing in the Canadian economy.

CORPORATE TAXES: Small businesses are the engine of job creation in this country, yet this government still maintains a tax system that makes it increasingly difficult for this engine to operate. The Official Opposition recommends that the government make a real commitment to labour productivity by creating a tax environment that does not discourage businesses from growing, innovating and creating the high-value jobs that contribute to our wealth as a nation.

We recommend that the government increase the small business deduction so that small businesses have more capital availability for expansion and job creation and consider the many recommendations of the Mintz report, with an eye towards an eventual reduction in corporate taxes.

PAYROLL TAXES:

"We believe there is nothing more ludicrous than a tax on hiring. But that's what high payroll taxes are. They have grown dramatically over time. They affect lower wage earners much more than those at the high end." — *Finance Minister Paul Martin*, October 17, 1994.

The Official Opposition agrees with the Finance Minister's comments and wonders why he continues to kill jobs by keeping EI premiums 33% higher than his own Actuary says is necessary. Combined with the massive CPP premiums hikes, Canadians are now paying higher and higher payroll taxes. The Finance Minister has already recognized that payroll taxes are a cancer on job creation, which is why **the Official Opposition recommends that:**

1. **the government follow the recommendations of the Chief Actuary of the EI fund and significantly reduce EI premiums next year. The government should abide by the current EI legislation and cease using any excess monies in the EI fund to finance other government priorities.**

2. **the government hive off the EI account from General Revenues and have the fund independently run by contributors so as to avoid future governments using these monies for purposes other than ascribed by the legislation.**

OTHER ISSUES:

RRSPS: As an interim change, the Official Opposition recommends that the government increase foreign content limits on RRSPs to 30%. We would also

like to engage the public in a further debate towards the complete phase out of these limits. At a time when Canadians are asked to take more responsibility for their retirement security, it is counterintuitive to arbitrarily limit their ability to maximize their investment returns in their RRSPs.

Affordable Housing: We have heard a lot lately about the scarcity of rental units for low- and medium-income Canadians and how important affordable housing is in maintaining a stable workforce. While the government talks around the issue, they refuse to acknowledge how their own tax system has dampened development in this area. The Canadian Federation of Apartment Associations suggested a number of tax changes that would stimulate private sector development in housing, such as allowing investors to defer CCA recapture and capital gains on the proceeds from the sale of rental property when the proceeds are reinvested in another rental property within a reasonable time. This is currently allowed in the United States. A second suggestion was to allow a 50% rebate on construction of new rental projects and on major renovations to existing rental projects under the federal GST and HST. This treatment would treat private rental projects the same as social housing. **The Official Opposition believes these two suggestions are worthy of serious consideration by the government.**

Agriculture: The subsidy war sparking today's agricultural crisis is just the latest example of what happens when governments distort and interfere with the marketplace. They limit the natural development and innovative change necessary for maintaining a productive economy. So too does a tax system that takes more money out of farmers' pockets with every passing year. While changes in international trade policies may require a longer timetable to resolve, the government can act immediately to lessen the punishing tax regime under which their farmers now suffer:

The Official Opposition offers a number of recommendations where the government can use the tax system to assist farmers:

1. **Make NISA contributions tax-deductible. This is money not available to farmers in the present year, and it is an undue hardship to require taxation on this money in a year when it is earned but not available.**

2. **Make it possible to roll over a farm to the next generation without penalty — over and above the existing capital gains exemption.**

3. **Review the issue of cost recovery and fees. This issue showed up in various presentations, but most importantly in the agriculture presentations where it has been a very large factor in increasing cost for our farmers.**

4. **Reduce "built-in" federal taxes that are part of the purchase price of such farm inputs as fertilizer and diesel fuel and transportation. These**

premiums are passed on through all that farmers buy (i.e. machinery, etc.).

5. **Reductions to federal transfers have made it impossible to reduce the education portion of property tax — a huge burden on farmers.**

Accounting/honest bookkeeping: Canadians need to feel they can trust the budget figures that the Finance Minister gives them. Recent signs give cause for worry. First, we learn that billions have been borrowed from the EI account to reduce his deficit, making his much-lauded "balanced budget" largely an illusion. Second, we learn that he plans to confiscate most of next year's multi-billion dollar EI surplus to finance other programs, even though the legislation expressly prohibits him from doing so. And finally, for the third year in a row the Auditor General of Canada has refused to sign off on Canada's books because he believes the Finance Minister's accounting trick of pre-booking future spending gives a false and misleading account of our true financial state.

The Official Opposition believes that, in reporting the government's finances, the government must follow the standard public accounting principles agreed upon by the Auditor General of Canada.

DEBT: Canadians continue to be very concerned about the high level of debt carried by this country. The government's continued refusal to set up a legislated debt repayment schedule — beyond their tepid promise to apply whatever's left over in the contingency fund at the end of the year — has reasonable Canadians questioning the government's true commitment to debt reduction.

The Official Opposition recommends that the government demonstrate their true commitment to improving productivity through debt reduction by introducing balanced budget legislation and creating a legislated schedule for debt reduction with clear, manageable annual targets for significant debt retirement.

Dissenting Opinion — Bloc Québécois 1998-1999 Pre-Budget Consultations

"The new era we keep hearing about: the era of Liberal arrogance"

A report dictated by Paul Martin

The Bloc Québécois wishes to disassociate itself entirely from the Report of the Standing Committee on Finance on the recent pre-budget consultations, and to criticize the Report in the strongest possible terms. Once again, the Liberal majority has ignored the views put forward by Quebeckers and Canadians during the recent consultations. In reading the Report, it emerges clearly that the recommendations formulated by the Committee were remote-controlled, if not dictated, by the Office of the Minister of Finance. The Liberal majority report is thus nothing but a propaganda tool for the federal Finance Minister.

The Liberal version of the truth

Moreover, the Bloc Québécois considers as nothing short of scandalous the treatment given to recommendations made by witnesses who came before the Committee to express their concerns, especially as regards to employment insurance. On page 48 of the Report, on the question of reforming employment insurance, it says: "The Committee considers that this phenomenon is poorly understood (...) they [the unemployed] do not receive anything because the system was not designed for them."

What the report by the Liberal majority really tells us is that only the Liberal government is right and that the ordinary Quebeckers and Canadians who appeared before the Committee are wrong. Even though fewer than half of the unemployed who paid into the plan have received benefits, and even though there is virtually universal criticism among Quebeckers and Canadians of the way the Liberals are managing the employment insurance system, the Liberals assert on page 48 that the Committee "sees no reason at the moment to increase benefits."

The Liberal majority report plays fast and loose with reality in a number of ways when it asserts that the Canadians who were consulted want to see the Minister of Finance deliberately conceal the truth about the surpluses in the name of prudence. On the contrary: most of the witnesses demanded an end to lies about the budget estimates and in the name of democracy called for greater honesty on the part of the Finance Minister.

This year's consultation of the people was carried out on the basis of false premises about the size of the surpluses in coming years — surpluses that we estimate at $15 billion for the current fiscal year while Mr. Martin says they will be no higher than $4 billion.

The Liberal majority on the Committee is encouraging the government to pursue its intrusion into education, an exclusively provincial area of jurisdiction, in particular with the proposed Millennium Scholarships. The idea of these scholarships was rejected by the witnesses from Quebec. Nowhere in the Report is there any mention of this unanimous opposition on Quebec's part.

While the Canada-wide problems with the functioning of the country's health networks are basically the results of the savage cuts by the federal Finance Minister, cuts of $6.3 billion a year from the 1993 level, we find on page 57 of the Liberal report: "By reducing health services, the provinces have tampered with one of the national symbols that are dearest to Canadians." A not very graceful way of baldly and hypocritically transferring the Liberal government's responsibility to the provinces, and a classic example of Liberal arrogance!

The Bloc Québécois deplores the fact that there is no mention at all, in the discussion of health, of the agreement on the social union signed by all of Canada's Premiers meeting in Saskatoon. In this agreement, the Premiers call on the federal government to restore $6.3 billion to the provinces via the Canada Health and Social Transfer (as opposed the timid request for $1 billion made by the Committee's Liberal majority), and assert the right to opt out with full compensation from any federal initiative in the area of health and social services, areas that fall exclusively under provincial jurisdiction.

The willingness of the Liberals to ignore what was actually said at the Canada-wide pre-budget consultations strengthens our conviction that the Bloc Québécois was right to hold its own pre-budget consultations, so that it can defend the real concerns of "real people."

According to the pre-budget consultations carried out by the Bloc in the various regions Quebec, and those undertaken Canada-wide by the Finance Committee, it is our conviction that Quebeckers' and Canadians' priorities for the next federal budget are as follows:

1- Reimburse Quebec and the provinces for health, social programs and education

Funding for social programs is of grave concern to residents of Quebec and Canada, especially since they learned that the federal government had radically reduced its contribution. Reinvestment in health care is the no. 1 concern for Quebeckers. Individuals, community groups, unions and employer organizations, all were unanimous in demanding that the federal government reinvest part of the surpluses in social transfer

payments, to make up for the cuts imposed on the provinces over the past few years. A number demanded that this reimbursement be done in the form of tax points, to avoid new arbitrary reductions of social transfer budgets in the future.

The federal Finance Minister is currently depriving Quebec of over $1 billion every year in the area of health alone, compared with transfer levels in 1993-94. The Quebeckers who were consulted said it is high time for the federal government to devote part of the surpluses to reimbursing Quebec.

2- Reduce personal income tax significantly

A second consensus emerged from the Bloc's pre-budget consultations, and it was one that was echoed in the Canada-wide consultations: the need to lower personal income tax. This lightening of the tax burden, which could be done through full indexation of the tax tables, should start with people on low and medium incomes. They are the ones who have suffered most from the tax increases that earned Paul Martin $20 billion over four years.

3- Improve the employment insurance system

Another priority for the vast majority of participants in the Bloc Québécois consultation process was employment insurance. Complaints about the system are legion, and involve all social levels.

Restricted accessibility and the level of benefits were both bitterly criticized, because workers do not believe that a system that is accumulating colossal surpluses cannot be made to offer them decent protection when they lose their jobs.

The Minister of Finance announced on December 1 that premiums for 1999 would be reduced by the ludicrous amount of 15 cents. Quebeckers want at least $3 billion more in coverage and they want the rest of the annual surplus used to reduce premiums. It should be recalled that from December 2, 1998, to March 31, 1999, every dollar of premiums paid to employment insurance will go towards swelling the Finance Minister's surplus and not towards providing benefits to the unemployed. The employment insurance plan has thus become a tax, which is absolutely unacceptable to the Bloc Québécois, the people of Quebec and the people of Canada.

Other proposals from Quebeckers

In the course of our consultations, a number of other possibilities were put forward for using the budget surpluses and managing the public finances. Among them were:

- reforming the federal personal income tax system to make it more equitable;

- reinvesting in social housing. Quebec's shortfall in this respect vis-à-vis the other provinces is estimated at about $450 million by people in the field;
- establishing a federal shipbuilding policy that in particular would include tax incentives, similar to those developed by the Quebec government; and
- reimbursing the Quebec government the $2 billion that it is claiming under harmonization of the GST and the QST.

The people's interests first

Reimbursing Quebec and the provinces for health, reducing personal income tax and improving the employment insurance system — these are the things that the Minister of Finance must do in his next budget if he is serious when he says that the surpluses belong to the citizens and not to the Liberal Party of Canada.

Dissenting Opinion — New Democratic Party

FACING the FACTS

When they are sent out on a mission like this, they are torn between two fires. On the one hand, the glaring facts, — on the other hand, their duty towards their government.

Mahmoud Ahmed, member of the UN Committee on Economic, Social and Cultural Rights. As quoted in the Toronto Star, November 28, 1998

These words were used to describe the Canadian delegations stonewalling on our record on homelessness, rising child poverty, reductions in welfare payments, living conditions of First Nations and other social problems, in our appearance before the UN Committee on Economic, Social and Cultural Rights in Geneva.

They could just as easily have described the Liberal majority report of this Committee — a report torn between the **glaring facts** — and the will of the Finance Minister to deal with them.

Last year, with a balanced budget in sight we were supposedly on the cusp of a golden age. After years of budget cutting and zero inflation policies, the big question before the Committee was how to spend the fiscal dividend. The Finance Minister was delighted to announce a new financial milestone every time he stood up — the first G-7 country to balance its books; the lowest inflation of any industrial economy; projections for the fastest job growth; a shrinking stock of financial debt. Paul Martin and Gordon Thiessen constantly reminded us that the fundamentals have never been better.

Today's irony is that the promised recovery has been cut short by the same financial markets we were doing so much to court. Job creation ground to a halt in the spring, the GDP actually declined during the spring and summer, and economists have revised their forecasts downwards — from 4% last year to 2.5% or less this year, and 1.5% or less for 1999. Many believe we will be lucky to avoid a major recession.

As it turns out, the fundamentals are weaker than they have been since the 1930s. The nineties are shaping up to be a lost decade. Per capita GDP has not risen through the decade. Real living standards have declined for a majority of Canadians and are at desperation levels for the growing army of the poor.

While governments retreat behind slogans about market discipline and fiscal responsibility:

- health care bleeds to death from a thousand cuts;

- students seeking the job ticket of higher education are pushed into lifelong debt to afford it;
- the training system in the country is awash in chaos and confusion;
- the majority of the unemployed are denied benefits while a surplus of $20 billion accumulates in a government account;
- Canadian farmers are killing their livestock rather than face complete ruin trying to market it;
- on the streets of our largest city, homelessness has been declared a national disaster.

Meanwhile, out in the market economy, the top 10% of income earners have increased their share of national income by a factor of 15. Today they earn 314 times the income of the bottom 10% — up from 21 times in 1973.

It is in this climate that the Business Council on National Issues urges the Finance Committee to make the "courageous" choice — and support major tax cuts for those earning up to $150,000 per year. And it is in this climate that the Liberal majority on this Committee pushes tax cuts for upper income Canadians as the #1 priority for government spending!

To the contented majority on this Committee, no ***glaring facts*** about declining living standards, loss of access to higher education, a deteriorating health care system, or growing inequality, will be allowed to stand in the way of giving Paul Martin precisely what he wants — another round of applause for his fiscal prudence, a vote of confidence for debt reduction, and a mandate for tax cuts to upper income earners.

Last year, one of the Finance Minister's proudest boasts was that he had cut government spending back to 1949 levels. The impact of this year's recommendations will be to lock in downsized government, to promote private wealth while the public sector deteriorates, and to ignore the genuine needs of the unemployed — whose lost benefits paid for Paul Martin's balanced budget.

1. Health Care — Litmus Test of this Budget

Over two years ago, the National Forum on Health recognized that the future of Medicare in Canada depended critically on the faith Canadians place in the system. Today the crisis in health care is evident in the growing number of Canadians who appear to be losing that faith. In May 1991, over 60% of Canadians rated the system as excellent or very good. By 1998, less than 30% of the population could support that claim.

Scepticism is rife because Canadians look around and see a system in crisis. The immediate symptoms present themselves in a series of ***glaring facts***: longer waiting lists and delays in treatment, crowded emergency rooms and lack of beds, nursing shortages,

diminishing access to care, higher drug costs, increases in user fees for previously covered services, the loss of public scrutiny over health products, food, and drug approvals with the destruction of the Health Protection Branch, and the federal government's cowardly capitulation to the tobacco lobby in place of a real commitment to stop kids from smoking.

Canadians also see wide-scale reform of the health care system for exactly what it is — a cover for a vastly reduced public system, at a time when demands on that system are likely to increase. The 62,000 jobs in health care that disappeared between 1993 and 1996 — the first 3 years of the Liberal mandate — are evidence of the kind of reform governments have in mind. And then there are the funding cuts.

On a cumulative basis, $15.5 billion in **federal cash transfers have been withdrawn** from the system since 1995-96. If the current cash floor is maintained, that number will soar to $40 billion by the year 2002-2003. At minimum, the amount cut from health care each year since the CHST was introduced is $2.5 billion.

Over the past four weeks, several government ministers have reiterated their belief that health care is at the top of the list for reinvestment. But every day, pressures on the health care system mount, and new evidence surfaces that privatization is eroding our public system. Alberta recently opened a private acute care hospital. In Ontario, the closure of one chronic care hospital will throw 435 elderly patients from public to private facilities, removing long-term care from the reach of the *Canada Health Act*, and taking the aged from the insured public system into one where medications may have to be paid out of a pension cheque. As the *Toronto Star* asks, "If this isn't a two tier system, what would one look like?"

The federal government also reiterates its commitment to the five fundamental principles of our public Medicare system, at the same time as it undermines them. It promotes marketization by inviting drug multinationals to scrutinize the drug approval process, makes health research support conditional on partnership with private firms, and turns the development of health information technologies over to Industry Canada where it will be operated on a for-profit basis.

Federal stalling on funding, and on the establishment of a comprehensive homecare and pharmacare system also undermine the viability of the system, and the faith Canadians have in its future.

The New Democratic Party's prescription for health care is to:

- reinvest $2.5 billion into health care in the upcoming budget as the most urgent public spending priority;
- restore funding to the Health Protection Branch and conduct an independent audit;

- stop the slide toward private, for profit health care by enforcing the principles of the *Canada Health Act*;
- convene a National Summit on Health.

2. UI — How the Jobless Will Pay for a Tax Cut

This year, the government expects to bring in $7 billion **more** in EI premiums **than it pays out** in benefits. On a cumulative basis, the government has collected some $20 billion more in premiums in the past 4 years than it has paid out. Meanwhile, well over 900,000 unemployed Canadians have no income support, no access to training, and little prospect of finding new jobs as the economy contracts.

It is clear the government raided the Fund to pay down the deficit, and that it intends to continue to do so. In October, the Finance Minister used his *Fiscal and Economic Update* to perpetuate old myths that UI discouraged people from working.

The Liberal members state boldly that *the unemployment insurance program promoted high unemployment and attracted labour to the less promising sectors of the economy. (It) did not encourage the unemployed to learn new skills, explore opportunities in new industries or take advantage of stronger economies in new locations. With reforms in place workers are ... directed to (other) sectors. They benefit materially from this ...*

Again, the Committee ignores the ***glaring facts*** — that overall, less than 40% of the unemployed are receiving UI benefits, only 31% of unemployed women, and only 15% of unemployed youth. And for those few, the insurance benefit is pretty thin. Due to a complex and nasty formula, benefits can be as low as 25% of former income. That indeed may have been the Liberal intention in changing the UI Act; it was certainly not its stated intention.

This fall, Angela Vautour, New Democrat MP from Beauséjour—Petitcodiac told the House of Commons — "I get calls from people who receive cheques for $32, and I see Liberal members stand up to congratulate themselves. ... They know nothing about being hungry."

A group that knows something about hunger, the Canadian Association of Food Banks told the Committee that

Changes to the former (UI) system are one of the most important causes of increased food bank use in the last 10 years, both in terms of eligibility and benefits. Recipients of former full UI benefits tended not to need food banks, as they were not reduced to destitution.

But the Committee, like Paul Martin, is deaf to these concerns. They see nothing illegitimate about taking that money and using it to subsidize debt repayment, nothing corrupt about seizing it to fund a tax break geared to upper income Canadians.

It is precisely because the government **cannot be trusted to manage the fund in the interest of the unemployed** that New Democrats along with the other opposition parties called for the UI Premium Account to be separated from overall government revenues as of April 1, 1999, with an independent commission made up of worker and employer representatives to monitor and manage the UI fund.

Misuse of the UI funds must be stopped. New Democrats would put the annual surplus in the account to work immediately to begin restoring benefits to 70% of the unemployed and to increase the benefit level to 60% of insurable earnings. The current accumulated surplus, which the **federal government owes to the fund**, is more than adequate to raise benefit levels as indicated, and to provide a substantial surplus to insulate the fund during a downturn.

Pumping millions of dollars of spending power back into the hands of Canadians in some of our poorest communities and regions would strengthen local demand, boost the domestic economy and assist provincial governments, coping with swollen welfare caseloads. More importantly, it would put food back on the tables of the jobless, restore their dignity, and bring a new integrity to the government's fiscal accounting.

3. Child Poverty — Redefining the Problem

Since the unanimous adoption of former NDP Leader Ed Broadbent's motion in 1989 to eliminate child poverty by the year 2000, the number of poor kids in Canada has risen by 500,000. Poverty in Canada generally has risen from 14% in 1989 to 18% in 1996. For children, the poverty rate was 21% in 1996.

Calling child poverty a national disgrace, Paul Martin said last week that "We should essentially establish the elimination of child poverty as a great national objective, not unlike what we did with the case of the deficit." And Minister of Justice, Anne McLellan, recently called poverty "Canada's worst human rights problem." Meanwhile, the federal government is working diligently with provincial and territorial governments on a new approach to child poverty. They want to define it out of existence.

According to Statistics Canada, we have 1.5 million children and some 3.8 million adults living in poverty in Canada under the Low Income Cut Offs — the commonly understood poverty line in Canada for many, many years. By changing the definition, essentially dropping the income floor by about 20%, governments could remove 1.8 million people, including 500,000 children from the nation's poverty rolls. The new measure would mean that poverty didn't actually rise to 18%. It wasn't even 14% to begin with. Under the new measure, the rise in poverty in the nineties would be a mere 1-2%, from 10% in 1989 to just under 12% in 1996.

In its written responses to the UN Committee on Economic, Social and Cultural Rights, the government noted the lack of an official measure of poverty, and cited the National Child Benefit as its response to child poverty. It said that the program is designed to improve

benefits for low-income families with children, reduce the depth of child poverty, and promote attachment to the workforce by assuring that families will always be better off as a result of working.

It does not say, however, that parents unfortunate enough to lose their jobs will be made poorer by cuts to unemployment insurance benefits, and will likely be denied benefits and training, etc. It does not say that its innovative approach to reducing the depth of poverty for poor families could be to drop the floor by over $6000, handily reducing the depth of poverty by two thirds. Just a few more ***glaring facts*** the Committee overlooked.

We haven't heard the final word on redefining poverty. Although the majority report of the Committee doesn't mention it, consider this one a work in progress for the government of Canada. What is needed here is not a new definition — but a new commitment, to set targets for job creation, and targets to reduce poverty for all Canadians living below Statistics Canada's unofficial poverty line.

4. The Productivity Puzzle

A key theme of the majority report is that Canada needs a new benchmark — a Productivity Covenant — to measure our economic progress. It suggests that the economy is performing poorly with respect to labour productivity and that our living standards will decline unless we can harness productivity growth and translate it into higher incomes.

The Committee suggests that improvements in our standard of living could come from two sources — an increase in productivity of those who are working, and an increase in the proportion of Canadians who have jobs.

A recent Conference Board study pins the blame for lagging productivity on the mediocre quality of management in Canada's private sector, suggesting that the people at the top are at fault, not the workers below. Other analysts suggest that despite extensive rationalization and downsizing, generous subsidies for R & D, high education and skill levels in Canada, productivity still lags the U.S., and Canada has an innovation gap. Some suggest that foreign control of Canadian manufacturing might be among the reasons, since foreign firms are more likely to do major research at home than abroad. Tax rates are often trotted out as the culprit, but France and Germany both have higher ratios of tax to GDP than Canada and they maintain higher productivity levels as well.

The point is productivity measurement is unwieldy, not always conclusive, and therefore not entirely reliable as a measure for every initiative of government.

But when it comes to increasing the proportion of Canadians who have jobs, and linking that index to living standards, the picture becomes much clearer. In fact, Canada's leading economists on living standards have developed a new measurement of economic

well-being. This index shows a steady decline in economic well-being in Canada over the nineties — and compares it to the US. The U.S. outperformed Canada on three of four components. Overall, economist Andrew Sharpe, concluded that the growing gap in the growth rates of economic well-being in the 1990s is explained by one ***glaring fact*** — the massive deterioration in economic insecurity in Canada. ***In other words, the issue is jobs.***

In its brief to the Committee, the Social Sciences and Humanities Research Council asked "What is the best way the government can ensure that there is a wide range of job opportunities in the new economy for Canadians?" Their response? "A top notch training and education system."

5. Training and Preparation for the Knowledge-Based Economy

A report prepared for the Canadian Labour Force Development that looks at training and re-employment issues system since 1995-96 concludes that chaos defines the state of training across the country. It points to three central causes.

- Withdrawal of any direct federal funding for training except from UI.
- Cuts to the proportion of unemployed who are UI beneficiaries from 83% in 1990 to 36% in 1998, which means that over 60% of the unemployed are also excluded from access to training.
- Combined federal and provincial cuts to training and post-secondary education, amounting to some $4 billion over the past 4 years.

The College Educators' Institute told the Committee that "The dramatic increases in post-secondary enrolment of the past have stopped and are being reversed." It went on to condemn the devolution of labour market programs for destroying the funding bases of community colleges across the country, favouring private for profit-trainers, and passing all of the risk for retraining onto individuals, who at the end of the day may be provided with little more than a debt.

If the Liberal government is really serious about raising productivity levels and gearing Canadians up for the knowledge economy, reinvestment in education must be matched by thorough consideration of the direction of change.

6. Tax Cuts for the Rich

The central message of the majority report's spending proposals is that "the time has come for personal tax reductions directed at middle and higher-income Canadians." Although there is scant evidence that Canada is suffering a brain drain as a result of our tax rates, the Liberals assume it anyway, citing the unfairness imposed on income earners over $50,000. "It is no wonder so many highly skilled individuals are voting with their feet."

The majority Committee report calls for:

- a flattening of the progressive income tax by presenting a 3-year tax reduction plan;
- elimination of the 3% surtax on incomes above $65,000;
- a timetable for eliminating the 5% surtax that applies only to very high earners;
- extending the increased basic personal exemption and spousal exemption up the income scale to cover all tax filers;
- a cut of 10 cents in the EI premium rate;
- reintroduction of full indexation as soon as finances permit, and;
- raising the 20% foreign property limit in tax-subsidized pension plans to 30% over 5 years.

The above plan amounts to tens of billions of tax cuts — depending on how phase-ins are structured, and a strong reduction of the tax burden on those who can clearly afford to pay. Clearly the Committee is not interested in ***the glaring fact*** that after-tax inequalities are increasing in this country, or that the poor are falling further and further behind.

New Democrats are concerned about the vast number of Canadians who are being excluded from the Liberals frame of reference. Our approach would be to:

- rebuild our deteriorating social infrastructure, with health care at the top of the list;
- to generate new jobs, and preserve the touchstone of our national identity;
- restore the unemployment insurance program to the working people of this country;
- address glaring issues of inequity around us, including poverty and the plight of Canadian farmers devastated by the fall in commodity prices;
- introduce tax relief for all Canadians as finances permit, with an increase in the GST credit, and a 1% rate reduction to generate new jobs.

Dissenting Opinion — Progressive Conservative Party

ECONOMIC GROWTH IS KEY TO ALL OTHER GOALS

INTRODUCTION

The Progressive Conservative Party is committed to providing Canadians with a nation that is economically strong. After surviving one of this century's worst recessions and enduring a painful deficit battle, Canadians deserve a better quality of life.

A review of the situation facing Canadians:

- The national unemployment rate stood at 8.1% in October 1998, nearly double the U.S. rate (4.6%), and our youth unemployment rate was 14.7%.
- Canadians took home $400 less last year than they did 2 years ago and their after-tax real income has declined 7.2% over the past decade.
- Personal debt levels grew faster in Canada than any other G-7 country over the past decade and last year consumer bankruptcies reached 85,297, an all-time high.

A review of the situation facing our nation:

- Canada's productivity growth over the past two decades has been slower than every other G-7 country.
- Our tax burden is among the highest in the industrialized world, with the highest direct taxes on personal income in the G-7.
- Canada has the second highest debt-to-GDP ratio in the G-7.
- This Liberal government has not moved to stop the "brain drain," which the C.D. Howe Institute has estimated to cost $6.6 billion for the period 1982 to 1996.

The Liberals have no compass, no direction and no idea of where to take the country. "This intellectually lifeless government believes all politics is administration, whereas it should be about policies, ideas and values" (Jeffrey Simpson, *Globe and Mail*, October 28, 1998).

The current government has managed to balance the books only by implementing the policies of the previous government, notably Free Trade, tax reform, deficit reduction. "They [the PC government] set up a deficit reduction plan. What we are doing is what this government set up" (Paul Martin in the House of Commons, November 18, 1998).

The philosophy of the PC Party's plan has been summarized in the following statement:

"Economic growth is the means to achieve all other goals we might set for our society."
~ Rt.Hon. Joe Clark, Leader of the PC Party of Canada, October 26, 1998

Some of the components of this plan are reflected here in the recommendations put forward by the Progressive Conservative Party of Canada.

RECOMMENDATIONS

1. Reduce Employment Insurance Premiums

> High premiums stifle private sector job creation and reduce personal disposable income. — Elyse Allan, President and CEO, Board of Trade of Metropolitan Toronto

In December 1997, the government lowered EI premiums from a level of $2.90 to $2.70. At this level, the Employment Insurance fund will take in about $7 billion more than it needs in the 1998-99 fiscal year. In addition to being unnecessarily high, Canada's current payroll taxes are very regressive.

The Actuary of the EI fund is unequivocal: "the fund is sufficiently large to sustain itself through an entire business cycle with a premium of $2.00." The PC Party agrees and recommends reducing the premium rate to $2.00 per $100 of insurable earnings.

2. Fully Index the Income Tax Brackets (i.e., Eliminate Bracket Creep)

> Tax brackets should be fully indexed, as they are in the U.S. and the U.K. — Ian Markham, Association of Canadian Pension Management

Approximately 1.4 million low-income earners have been pushed onto the tax rolls and another 2.5 million individuals have been moved into higher tax brackets due to partial indexing.

Canada's inflation rate has been running at a low level for several years, and will likely remain low for the foreseeable future. Therefore, the PC Party recommends that full indexing be restored immediately.

3. Increase the Basic Personal Amount to $10,000

> Canadians are taxed at high rates, and the levels at which the high rates are applied are reached on relatively low levels of income. — Garth MacRae, Vice-Chairman, Dundee Bancorp Inc.

The basic personal amount is the base amount on which an individual pays no taxes at all. This amount is $6,456, although the government increased it in the 1998 budget by $500 for low-income Canadians.

The basic personal amount is not fully indexed, and has therefore been eroding the incomes of low-income Canadians for many years. As a result, about 500,000 low-income Canadians, who would not otherwise have paid any tax, have been dragged into the tax system since the Liberals took power in 1993.

4. Increase the Capital Gains Tax Exemption

The Capital Gains Tax is a tax levied on the profits from the sale of capital assets. In Canada, capital gains are taxed at three-quarters of the full income tax rate.

There is, however, a $500,000 exemption for capital gains on small business shares and qualified farm property. This exemption has not kept pace with inflation or the growth in the size of small businesses and farms.

Entrepreneurs are more willing to take risks and bring their ideas to market when they know that they will be able to keep more of what they earn. In this regard, capital gains tax exemption is also important in attracting investment capital for start-up or expansion. The small- and medium-sized business sector is the most dynamic sector of the economy.

The exemption should be increased to $750,000 to take into account the increased market value of farms and small hi-tech businesses.

5. Increase the Canada Health and Social Transfer (CHST)

> Health care issues are very much on the minds of most people in Canada ... the association supports the Canadian Healthcare Association's request for an immediate cash infusion. — David MacKinnon, President, Ontario Hospital Association

Since 1993, the Liberals reduced spending on government programs by just 9.4% while they cut healthcare transfers by 34.2%. In other words, 57.5% of the program spending cuts the Liberals have made have been on the backs of the old and the sick.

Hospitals are understaffed and the amount of time Canadians are waiting for treatment is getting longer. The provinces need to have healthcare funding restored. We recommend, therefore, that the CHST be increased by $2 billion.

6. Index the Child Tax Benefit

Under the federal Liberal government, the value of the child tax benefit has decreased by about $160 million per year over the last few years.

Forty-two percent of the families that receive the child tax benefit earn less than $25,921. Those families receive 56% of all benefits ($5.2 billion in 1996).

7. Introduce Real and Measurable Debt Reduction Targets

> What we've not heard from the government is any commitment to firm targets for debt reduction, in terms of neither an ultimate goal nor interim progress. — Thomas d'Aquino, Business Council on National Issues

It is clear that the Liberals' debt reduction strategy consists entirely of letting time pass, and counting on economic growth to reduce the ratio. This approach forgoes the permanent dividend of reduced interest payments that results from every dollar of debt that is paid down.

We believe it is reasonable to aim for a debt-to-GDP ratio of the G-7 average (55%) over the next 5 years.

8. Increase RRSP Foreign Content Limit to 50%

> ... the 20% foreign property rule costs ... It is unacceptable for the Government of Canada to maintain this rule, given its enormous cost to Canadians ... — Ian Markham, Vice-President, Association of Canadian Pension Management

The previous Progressive Conservative government increased the foreign content limit to 18%, then to 20%. We now believe this limit should be increased further, since Canada represents about 3% of the world's market capitalization and recent studies have shown that the optimal level of foreign content in an individual's investment portfolio is around 35%.

9. Emergency and Long-Term Support for Canadian Farmers

The Liberal government has removed one part of the farm safety net without putting in place any national replacement program. They traded short-term gain for long-term pain and today, farmers are paying the price. The PC Party recommends an emergency assistance package that would bring farmers' incomes up to 70% of their average income over the past 5 years.

As well, we propose that the federal government consult with the provinces and draw upon the knowledge and experience of the safety net programs that were put in place by the previous Conservative government. A "whole-farm" perspective should be brought to a program such as the Gross Revenue Insurance Plan (GRIP), which could be re-tooled to

cover most agricultural products, with the exception of supply management, to ensure that meat producers and others are also covered and that the risk is spread across a number of agricultural sectors.

10. Improve Access to Higher Education

> Drastic increases in tuition fees, compounded with the student financial assistance program which is based primarily on student loans, has led to a generation of learners who are shouldering huge debt loads ... — Elizabeth Carlyle, National President, Canadian Federation of Students

We believe there is an urgent need to address the issue of access to higher education in this country. The PC Party recommends that the government implement a higher proportion of grants to loans and a shift in income-contingent loan repayment schedules.

11. Restore Parliamentary Control over Estimates

The PC Party endorses a system whereby a certain number of departments would have their Estimates scrutinized by Parliament, without a time limit. The departments would be selected by the Opposition, with choices announced sufficiently late that each Minister would have to be prepared to defend each item in his/her budget.

12. Implement a "Regulatory Budget"

The government should implement a "Regulatory Budget," which would detail estimates of the total cost of regulation, including the government enforcement costs and the cost of compliance to individual citizens and businesses. The "Regulatory Budget" should also include a risk/benefit assessment of the regulation to enable cost-benefit analysis by parliamentarians.

13. Introduce a Tax Credit for Emergency Service Volunteers

Currently, a tax free allowance of $1,000 is provided only to those Emergency Service Volunteers who receive remuneration for their services. This policy discriminates against rural fire-fighters, for example, who rarely receive any compensation. The *Income Tax Act* should be amended to provide a tax credit of $500 to all Emergency Service Volunteers.

14. Implement Appropriate Tax Treatment for Private Woodlots

To encourage sound forest management practices, the PC Party recommends that the government allow forest maintenance expenses to be deducted against income. As well, private woodlot operators should be provided with the same capital gains tax exemption currently available to farmers.

SUMMARY

The Progressive Conservative Party of Canada is pleased to endorse several Finance Committee recommendations including an increasing focus on research and development, the appropriate tax treatment of private woodlot operators, and an increase in health research funding for the Medical Research Council.

We are also pleased to see the Finance Committee adopt a number of PC Party positions including the elimination of the 3% surtax.

The PC Party has proposed some important recommendations to stimulate economic growth, create more jobs, and improve the quality of life for all Canadians.

MINUTES OF PROCEEDINGS

MONDAY, NOVEMBER 30, 1998
(*Meeting No. 164*)

The Standing Committee on Finance met *in camera* at 10:00 a.m. this day, in Room 237-C, Centre Block, the Chair, Maurizio Bevilacqua, presiding.

Members of the Committee present: Carolyn Bennett, Maurizio Bevilacqua, Scott Brison, Ken Epp, Roger Gallaway, Sophia Leung, Yvan Loubier, Gary Pillitteri, Karen Redman, Paul Szabo and Tony Valeri.

Acting Members present: Bob Speller for Paul Szabo, Bernard Bigras for Odina Desrochers, Bill Blaikie for Nelson Riis, Guy St-Julien for Gary Pillitteri.

In attendance: *From the Library of Parliament*: Richard Domingue and Marion Wrobel, Researchers.

In accordance with its mandate under Standing Orders 108(2) and 83.1, the Committee began the consideration of its draft report on the Pre-Budget Consultation Process.

Karen Redman moved, — That the draft Report, be adopted as the Committee's Eleventh Report to the House and that the Chairman be instructed to present it to the House.

After debate, it was agreed to, on the following division:

YEAS: 8 NAYS: 4

It was agreed that the Committee print 6,000 copies of its Eleventh Report in English and 1,500 copies in French with a distinctive cover.

On motion of Ken Epp, it was agreed, — That the Committee authorize the printing of the dissenting opinions of the opposition parties.

On motion of Paul Szabo, it was agreed, — That the Chairman, the researchers and the clerk be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the report.

At 11:45 a.m., the Committee adjourned to the call of the Chair.

Jacques Lahaie — Roxanne Enman

Clerks of the Committee